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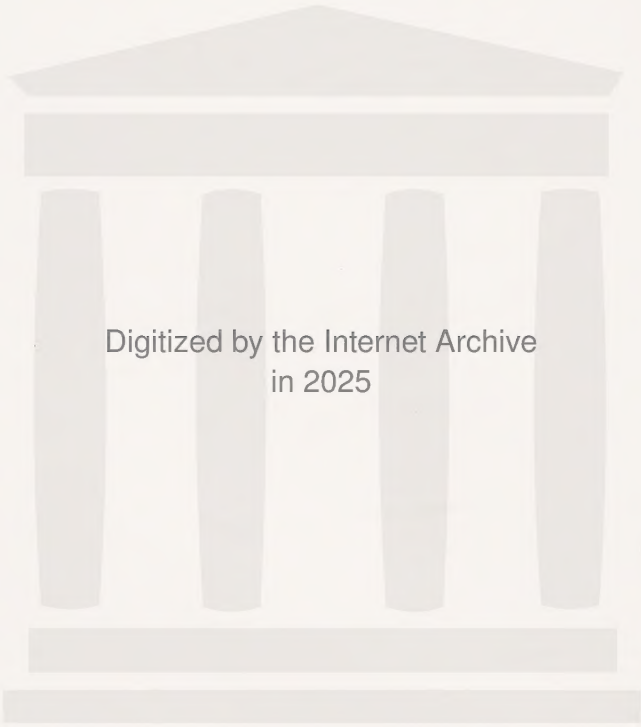
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ESSAY

ON THE

SUPPOSED ADVANTAGES

OF A

SINKING FUND.

BY LORD GRENVILLE.

Γηράσκω δ' ἀιὲι πολλὰ διδασκόμενος.

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ESSAY, *&c.*

PART THE FIRST.

ON THE

SUPPOSED DIRECT ADVANTAGES

OF A

SINKING FUND.

PREFACE.

The following pages contain one part only of an Essay which had been intended for publication at the opening of the present Session of Parliament. Severe illness has stopped the progress, and prevented the completion of my design. Under these circumstances, it has not been without much hesitation that I have determined to lay before the public this portion of a work in all respects so very imperfect. I should certainly not have done so, had I consulted only the feelings of an author. But

my original purpose was of a far higher order. It was directed to the hope of contributing what might be practically useful in a discussion of very urgent interest, and great permanent importance to our country. And that hope, even in the much smaller degree in which I can now entertain it, would, in the present state of the question, be utterly defeated by any further delay. Such as it is, therefore, I now submit what I have written to the examination and judgment of those who are to take, or to influence this great decision. On the force of the argument, in so far as it has been pursued, and on the validity of the conclusions which I deduce from it, it is for them to determine.

It is, however, just that I should here distinctly avow, that I have availed myself, without reserve, of the lights which have been thrown upon this subject by many writers of the present age, to whose praise nothing could be added by my enumeration of them. And I am particularly bound to acknowledge, that it was by the well-known treatise of Dr. Hamilton, that my thoughts on this matter were, I believe, first directed into their present channel. But I am not aware that the question has ever yet been placed before the public exactly in the same point of view in which I have here considered it; and with respect to the distinguished writer whom I have named, there are not a few of the topics on

which I have most dwelt, as well as some others which I have not had occasion so particularly to notice in this Essay, respecting which his opinions, if I rightly apprehend them, differ, I regret to say it, very much from mine.

Throughout the inquiry, I have not scrupled to question many long-established and deeply-rooted prepossessions. I have done so with unfeigned distrust of my own judgment, but under impressions long since received, and confirmed by much reconsideration of them. Truth alone is my object; and, without the free examination of previously received opinion, no branch of human knowledge can ever be advanced.

Since the above was written, it has occurred to me that, from the imperfect form of this publication, I may appear, on one point of considerable importance, guilty of some injustice,—certainly I intended none,—towards the authors of the Act of 1786. I have omitted to notice here, but I had meant to have dwelt much upon it in a subsequent part of my work, that the principle of unlimited accumulation was expressly excluded from that law, by a provision which limited to four millions the sinking fund then established. A wise precaution, shewing an early and just apprehension of the evils since felt from an opposite policy!

DROPMORE, MARCH 15, 1823.

CONTENTS.

Page

INTRODUCTION 1

CHAPTER I.

GENERAL PRINCIPLES 4

1. Necessity of a surplus Revenue for the support of a Sinking Fund 5

2. Inutility of borrowed Sinking Funds 7

3. Inefficacy of Sinking Funds operating in War, 12

4. Opposition of these Principles to those of our present Sinking Fund 13

CHAPTER II.

OPERATION AND RESULTS OF OUR PRESENT SINKING FUND 23

1. The direct Benefit derived from this Fund consists in the release of previously appropriated Taxation 28

Page

2. The effective Operations of this Fund are supported only by surplus Taxation 35

3. The Reductions of Debt thus effected, are mere Exchanges of Equivalents 37

4. These Results have in no degree been varied by the Application of Compound Interest to the Operations of this Fund 47

CHAPTER III.

Of the attempted permanence and repeated interruption of this System.

1. The expected Benefits of a Sinking Fund at Compound Interest depend on its unvaried Accumulation 58

2. Provisions adopted for giving Permanence to the Sinking Fund of 1786 60

3. Actual Failure of these Endeavours 65

4. Causes of this Failure 67

Conclusion 77

ESSAY,

&c.

INTRODUCTION.

When politicians tell us of the unvaried uniformity of their opinions and conduct, one is tempted sometimes to ask by what supernatural power they were gifted in their cradle with infallibility. To fallible men small would be the praise of having retained through life, on the most important subjects, a judgment, unimproved by cultivation or exercise, untaught by experience, and of every advance in science utterly regardless. Far more estimable in themselves, and unmeasurably more beneficial to mankind, are those qualities which lead men conversant

in government and legislation both to the ready abandonment of error, and to its undisguised avowal.

Such is the justification, if any justification can be requisite, of the total change of sentiment which is expressed in the following essay. Few measures have been more largely applauded than the Act of Parliament which established, in 1786, a sinking fund for the reduction of our national debt. The writer of these pages was himself a party to the too sanguine hopes of those who framed and proposed that law; confidently believing it one of the greatest services which could then be rendered to their country. To that opinion he long adhered; and even now, after the lapse of more than forty years, he feels it still painful to renounce so flattering a persuasion. But the interests of truth and science are paramount to all such considerations; and he who was formerly among the warmest advocates of a sinking fund, is, on that account, the more strongly bound to avow, on every fit occasion, the distrust which

he now entertains of its efficacy and real benefit. This is the true consistency of public duty.

Such an occasion now presents itself. After repeated changes made in the Act of 1786, the State has been once more driven avowedly to support its sinking fund by borrowing: a policy which is, in fact, though not in name, a virtual suspension of the whole system: and Parliament, pressed by fresh difficulties and doubts, is expected now to pronounce definitively on the re-establishment, modification, or abandonment of that important measure. Under these circumstances some advantage may possibly be derived from an attempt, however imperfect, to examine separately, each on its own grounds, the most prominent among the many topics which that deliberation must embrace.

CHAPTER I.

GENERAL PRINCIPLES.

For the prosecution of this design, there are three leading principles, which it is, I think, necessary to establish in the very outset of the discussion. These are, First, the entire dependance of every sinking fund on an actually existing surplus of revenue: Secondly, the consequent inutility of all borrowed sinking funds: And, Thirdly, the no less evident impossibility of deriving benefit from a sinking fund operating in times of war, or of otherwise deficient revenue. Of these it will be proper to speak separately. The two last of them are indeed little more than corollaries, deduced from the first by immediate and obvious conclusion. They might therefore have been assumed as virtually included in it. But a distinct and separate, though

brief statement of them, seems more consonant to the course of particular examination attempted in this Essay.

§ 1. *Necessity of a surplus Revenue for the support of a Sinking Fund.*

Never should he who undertakes to treat of any question connected with a sinking fund, overlook, even for an instant, the absolute and continual necessity of providing for it an effective surplus of revenue. Under no circumstances can any sinking fund be productive of real benefit, except where the ordinary income of the State has been carried to an amount permanently exceeding its current expenditure. To the neglect of this fundamental truth, a very large proportion of the errors which have prevailed in this branch of financial policy, is, as I think, mainly to be ascribed. Without such an exceeding, firmly established and invariably applied, a sinking fund may indeed exist in name, but it can have no solid operation.

Even when the revenue of a State is most deficient, some portions of it may, as we know, both from our past and present experience, be nominally appropriated to the purposes of a sinking fund: but, by such appropriations, the public debts are in no degree diminished. The veriest prodigal may annually discharge a part of what he owes; but if, on the whole, he expends within the year much more than he receives, he will find, at its close, his encumbrances not lessened, but considerably increased.

To reduce debt is the only object of a sinking fund. To the efficacy, therefore, and consequently to the wisdom of such an institution, two conditions are indispensable: first, the continued existence of the surplus from which it is to be supplied; and, secondly, the uninterrupted appropriation of that surplus to the reduction of debt. The very name of a sinking fund implies the recurrence of fixed payments at regular and stated periods: the casual application of occasional resources is a notion quite distinct from that of such a fund.

§ 2. *Inutility of borrowed Sinking Funds.*

This first principle, simple and obvious as it is, dispels at once the greatest of all the misconceptions by which this subject has been but too long obscured. It proves beyond all power of dispute, what I do not hesitate to term, the utter worthlessness, the total and hopeless inutility of a borrowed sinking fund. · A nation may often find it useful, sometimes absolutely necessary, to eke out a deficient revenue by loans raised for its current service. But to resort to any such expedient in the establishment or support of a sinking fund created for the reduction of debt, is a policy self-contradictory, and for the most part deeply injurious to its own purposes.

There is indeed one well-known case in which the repayment of debt from borrowed money is advantageous to the debtor. A general fall in the rate of interest may enable him to compel his creditor, if such be the nature of their contract, either to consent to a similar reduction in his own case, or to accept of the repayment of his capital,

to be effected by money borrowed elsewhere at a cheaper rate. This course, we know, has often been successfully followed by our own legislature. But such a measure has nothing in common with that which we are here considering. It differs completely, both in principle and in effect, from the application of a borrowed sinking fund, to purchase stock at its market-price. In the first of these two cases it is an evident benefit to the community to release itself from a more burdensome contract by money borrowed on terms of less disadvantage. But to the second no such reasoning applies. Can it be profitable to any man to buy up in the open market his own engagements, with money raised at the same moment, and in the same market, by a corresponding issue of similar securities? Would not the mere fact of his resorting to such an operation be more likely to injure than to improve his credit, if for no other reason, at least from the total want which it would imply of all judgment and intelligence in the conduct of his affairs? The exchange of two equal parcels

of the same commodity, two yards of the same cloth, or two ounces of the same ingot, would at best be a mere loss of time and trouble. But the similar operation which takes place, when debt is redeemed by a fresh creation of debt, is much worse than nugatory: it is almost always prejudicial to the debtor. And this is most especially the case with respect to the pecuniary transactions of the State. The extent and urgency of the public necessities operate in these dealings strongly against the government. A considerable profit must accrue to the contractor, by the intervention of whose capital these large exchanges are effected. And, when the loans wanted for other public services are on this account augmented, the whole must be raised on terms of proportionally increased disadvantage.

I am well aware how entirely this unqualified condemnation of all borrowed sinking funds is opposed to the practice, which has now for so long a course of years been followed by our own country, and imitated by so many others. But I cannot with truth profess, even on that

account, any distrust of the judgment which I have here ventured so confidently to express. It is sanctioned, if I do not greatly deceive myself, by a very general change in the public opinion on this point. Here, as in almost every other branch of political science, a better philosophy has in these later days established far sounder principles, both of inquiry and of judgment. Nor is it at all surprising that the progress of knowledge, in all these cases, should have so much outrun its practical application. Great changes in government and legislation are scarcely ever expedient until there has arisen in the community, not merely a speculative preference of the better course, but an active and growing desire for its adoption. And such a sentiment the public discussions now to be expected on this question, are, I trust, well calculated to produce. If, therefore, even in the present year (1827) money has again been borrowed by our government for upholding a deficient sinking fund, we may not the less reasonably hope that this will, at least in England, be the last instance ever to be ex-

hibited of such a policy. It was, in this case, suggested only as a temporary expedient which might give room for the promised revision of the whole system; and, on the result of that inquiry, who will now propose that we should again recur to schemes of borrowed sinking funds? To reduce debt by borrowing to the same amount on terms of equal or greater disadvantage, is a manifest fiction in finance: — a fiction in that branch of government, in which, above all others, fiction is most to be condemned. Its mischief is nothing less than this; it disguises from the country, and, in some degree, from the government, and from Parliament itself, the real state of some of our most important interests; throwing over them a false colour of progressive improvement in the very moments when the public debt is most rapidly increasing, and when the public revenue has become most unequal to its charge. That the British Parliament should at any time have lent itself, and under whatever misconception, to a measure capable of producing these groundless impressions, all men, I think, must now

regret; and who more than those who once participated in that delusion? But when, at last, the fallacy has ceased to deceive ourselves, it would ill become us to impose it upon others. Never again may any just legislature, or any enlightened community forget, that the only surplus from which a nation can, with sincerity and truth, reduce its debt, is a surplus accruing, not from loans, but from revenue.

§ 3. *Inefficacy of Sinking Funds operating in War.*

If the foregoing reasonings are correct, there necessarily follows from them another most important limitation of the whole question to be now submitted to Parliament. No sinking fund, it is thus evident, can truly exist, except in periods of peace; and in reference therefore to those periods only can the revival or abandonment of such a system be reasonably made matter of debate. In war, no man expects that our income will ever equal our expenditure: how then can it afford an excess of millions for the reduction of debt? Whatever surplus may

have been created for that purpose in peace, a new war will at once absorb; and, in that moment, vanishes all possibility of benefit from the sinking fund. A visionary permanence may indeed even then be given to it by law; its useless forms may be continued, in vain semblance of that which once was powerful and active; but its vital spirit we cannot so preserve. When the dog-star has drunk up the stream, what provinces will its empty channel fertilize?

§ 4. *Opposition of these Principles to those of our present Sinking Fund.*

It must not however be disguised, that the opinions thus stated as fundamental to this whole subject, lead at once, and by inevitable conclusion, to no modification or change, but to the total abandonment of our present sinking fund. The laws of that institution, and its whole course and operation are, not incidentally or partially, but essentially and universally opposed to all which has here been said. Though first established in peace, and founded in an assumed

surplus of revenue, it has been nominally continued through long periods of war; and, during the far greater part of the more than forty years of its existence, it has been either wholly or partially supported by loans heaped on loans. The failure of its original surplus was, in the very first moment of returning war, supplied by borrowing; and we have, ever since that time, to a greater or less amount, and in various, though sometimes not easily intelligible forms, borrowed again, with little intermission, throughout its whole continuance. This indeed was its natural and necessary course, and this the very principle of its existence. By no other means than these could its operations, such as they are prescribed by law, have been carried on during this long period of difficulty and pressure. The facts are here stated therefore, without any, the most distant, purpose of censure or reproach on those under whose councils the system has been thus administered. Far otherwise. The course pursued was of the very essence of the measure to which it was applied. The

avowed principles of that measure were, and still are, that the operations of the fund which it established shall be continued in war, no less than in peace, and that its consequent deficiencies shall be made good by borrowing. Take from it this support, feeble as it is, and the whole fabric crumbles into the dust.

More than a century ago, and in the very outset of a sinking fund, its first authors adopted this expedient as an essential part of their system. And, at a later period, Dr. Price, whose suggestions so powerfully contributed to its revival, founded on the same basis all his hopes of its promised utility. Periods of public distress, he contended, would, by the depression of the funds, accelerate its operation: and he even brought himself to believe, that the rate of interest on which the State might thenceforth borrow money would thus become comparatively indifferent. "For the higher the interest," he says, "the sooner would such a fund pay off the principal;"*—the

* Price on Annuities, 4th Edit. Vol. I. passim. See particularly pp. 187, 204, &c.

more violent the fever, the greater would be the power of the medicine to relieve it! This theory, self-evident as he imagined it, completely erroneous as it now appears, he urged with ceaseless vehemence, loading with reproach the government and legislature of his country, by whom these vain imaginations had been, after some experience of them, for nearly half a century utterly renounced. "The sinking fund," he says, "was established in 1716, and began its operations in 1719." It was at first strictly appropriated to the reduction of debt; "and so well," he adds, "did our ministers then understand the nature and importance of this fund, that rather than encroach upon it, they frequently borrowed money to defray the necessary expenses of government." In other words, they frequently supported their sinking fund by borrowed surpluses, and this not in war only, but in peace. They seem to have thought it no contradiction to increase debt in the very moments of professing to reduce it. But so great an inconsistency did not long escape the sagacity of Walpole:

a minister, who, in some other instances, no less than in this, seems not a little to have outrun the wisdom of his contemporaries. By measures which, notwithstanding all the clamour of his opponents, it would be very difficult to censure on any just ground of reasoning, he diverted the sinking fund from these unreal and simulated operations, to fresh exigencies of the public service as they successively arose; thereby saving to his country the imposition of new taxes, or the creation of new debt. For about forty years afterwards the same policy governed our councils, under some of our best, and wisest statesmen. They judged it the most beneficial course, as it unquestionably was the most natural, to attempt the reduction of debt in those periods only when the revenue of the State exceeded its expenditure. Nor did they show much solicitude to increase the taxation of their country for the purpose of providing it with such a surplus. Their reductions of debt were principally, though not wholly, effected by the falling in of

annuities, and by the diminutions successively made in the rate of interest on the public securities, by such tenders of repayment as I have above adverted to.

But, in the days of Price, the principles of 1716 regained the public favour; and, in 1786, they were re-established by almost universal acclamation, as the main bulwark of our finance, and the unfailing sources of incalculable benefit. To this change the circumstances of the moment powerfully contributed. At the close of the American war, the loss of our long-cherished colonies, to our possession of which such false notions of advantage had been attached, the magnitude of the debt incurred in that fruitless contest, and the deficiency of the revenue created to defray its charge, had thrown over our financial prospects a cloud of distrust and apprehension, scarcely to be imagined but by those who witnessed it. Nor were there wanting strong grounds for these impressions, exaggerated as they were. The real pressure of our burdens was, at that time, extremely severe: more grievous per-

haps, in proportion to our wealth, than in any succeeding period of our greatest difficulties. The nation gave way therefore to an almost universal panic on this subject. The ordinary course of our finance was thought no longer adequate to our necessities: resort must be had for safety, it was said, to some new, or, at least, to some long untried expedient. Under these circumstances it was, that the project of establishing a new sinking fund, which should accumulate, uninterruptedly, at compound interest, through every vicissitude of peace and war, and which, on that assumption, would be demonstrably capable of being carried, at least in figures, to any assignable amount, captivated all imaginations. The country grasped, almost without inquiry, at promises of relief so specious and so ample; adopting, with unbounded confidence, a remedy proclaimed on no light authority to be of efficacy nothing less than omnipotent.*

It can be no reproach to any individual to have partaken largely in these feelings;—

* Price, Vol. I, 252.

no reproach, I trust, to any public man to have co-operated with earnestness and zeal, both in preparing, and in supporting a measure so consonant to the wishes of his country. And least of all can censure be attached on this account to that able and excellent Statesman, who framed and carried through the act of 1786. Allowing for the impressions at that time so generally prevalent, there is, on the contrary, much of his conduct on that occasion, for which he is justly entitled to the highest praise. With an ardent and generous spirit, devoting all its energies to the national prosperity, he risked, and in no small degree surrendered his highly valued popularity to the necessity of the large additional taxation which that measure compelled him to establish and to maintain. This was no light sacrifice, nor did he feel it such. But he anticipated in return, with unspeakable delight, the full tide of wealth which, in some distant, but auspicious moment, the results of these disinterested exertions were to pour in upon his country. What he so ardently wished, he

willingly believed. His persuasion of the great advantages of a sinking fund to be continued in war, and to be upheld by borrowing in all periods of deficiency, was therefore deeply rooted, not in his judgment only, but also in his feelings. To these opinions he clung with unvaried fondness; and his provisions for giving effect to them, although, on more than one occasion, widely departed from by his successors, still form, even in the present moment, the leading features of the system, in so far as it can still be said to exist at all.

Yet shall we now, in deference to his great authority, seek to revive this nearly extinguished project, or to re-construct on the same foundations any similar institution? If we have learnt from the improved knowledge of the present age, that this structure, which he believed to be a main tower of our strength, rests on a basis unequal even to its own support, shall we not act as he would himself have acted under a similar conviction? Shall we not labour to devise some other less objectionable plan,

under which his purpose may be executed? or, if this be found impracticable, shall we not rather abandon the whole design, than adhere to hopes and projects which we now perceive to be, in their very essence, self-contradictory, and therefore manifestly delusive?

CHAPTER II.

OPERATION AND RESULTS OF OUR PRESENT SINKING FUND.

For a full examination, however, of the questions with which I closed the preceding chapter, and which comprise the whole substance of the decision now expected from Parliament, our sinking fund, such as it has been established and confirmed by law, must be considered with reference not only to its fundamental principles, the erroneous character of which I have here endeavoured to demonstrate, but also to its actual operation and results. It will thus appear in what degree the general reasonings here stated have been confirmed by our own experience. This is indeed a far wider, and more difficult inquiry. For who can hope to discover, and to appreciate with accuracy, all the remote and incidental changes which this great engine may possibly have worked in the complicated state of our society and government? But in propor-

tion as the topics to be thus inquired into are found more numerous and intricate, the more urgent is the necessity, the greater will be the advantage, of subjecting them to distinct and separate investigation.

Setting aside, therefore, for the present, all question of the indirect and collateral consequences which have resulted from this institution, let us, in the first instance, endeavour to ascertain what has been its immediate and direct operation in respect of its two great objects, the increase of the national wealth, and the reduction of the national encumbrances. That it must powerfully contribute to both these purposes, has long been the general opinion of our country. In this belief the measure of 1786 was first adopted: by the prevalence of such impressions it rapidly dissipated the panic which had preceded it; and the continued operation of the same system has very commonly been represented as one of the great pillars of our safety throughout all our more recent difficulties. And on that supposition, how inestimable would have been its value! But

it can justly pretend to no such glory. Under the favour of Providence, the true elements of our success in that great contest for all which could be dear to us, are to be found in the character of our people, and in the spirit of its legislation and its government; —all formed in a long course of centuries by our unrivalled political institutions. When, therefore, amidst the fresh praise, and gratitude, and ardent attachment which these institutions have thus merited from us, any portion of such feelings is claimed for our inconsistent and delusive arrangements of finance, we owe it to the best interests of society to shew how little our experience has warranted that vain imagination.

But where shall this experience be looked for? Not in columns and tables of figures, highly useful for many other purposes, but which in this inquiry can exhibit to us only the outward and ostensible workings of this complicated mechanism. To judge rightly of its real movements and results, we must, if I mistake not, consider it much more deeply. Our attention must be directed to its internal principles of action; to the first origin and

real nature of its powers, and to the necessary laws and limits of their operation. The more thoroughly these are examined, the more fully, I think, we must be satisfied how vain and valueless is all which it has ever done, and all which it ever could do, for the advantage of the public. The indirect operation to be expected from such an institution, I propose, as I have already said, separately to examine in a subsequent part of this Essay. Its whole immediate course and effect may, if I do not greatly deceive myself, be accurately stated under the following propositions; which will of course be found equally applicable to all future institutions resting on the same principles, and established under similar regulations.

First, All the direct benefit of which this establishment can, on the most favourable supposition, have been productive, consists in its having, from time to time, placed at the free disposal of the community certain portions of annual taxation previously appropriated to the interests of our public debt.

Secondly, All the means by which it has actually produced this effect have been sup-

plied to it by regular taxation, levied in excess of the current expenditure of the State, and therefore imposed or continued solely for this especial purpose.

Thirdly, Under the mutual counteraction of these two confluting principles, the one of reward, the other of superadded taxation, all the operations of this fund may be resolved into mere exchanges of equivalents, tending in a precisely equal degree to increase and to lessen the wealth of the community, and therefore equally incapable either of advancing its prosperity, or diminishing its burthens.

And, fourthly, The application of the powers of compound interest to these transactions has only enlarged their amount, without at all varying the self-contradiction of their principles, or the inefficiency of their results.

These views of this subject differ much from the long received opinions respecting it. Before we attempt therefore to draw any inference from them, they must, in conformity to the design of this essay, be separately considered.

§ 1. *The direct Benefit derived from this Fund consists in the release of previously appropriated Taxation.*

The first of these propositions relates to the direct advantages which have been derived to the community from those reductions of debt which this fund has effected. Correctly to estimate these advantages, we must establish with precision, in what operations such reductions have actually consisted, and what are the beneficial consequences of which those operations are naturally productive? The answer to these two questions cannot be doubtful. The reductions of debt have consisted in the purchases which the sinking fund has made of certain annuities due from the State to its creditors; and the benefit accruing to the community from such purchases, is to be found in the release of the annual taxation appropriated to those payments.

These propositions require no proof. But they are the foundations of all further reasoning on these subjects. It may, there-

fore, not be superfluous in this place to speak somewhat more particularly of both.

Our public debt consists not in capital, but in annuities: and all reductions of it are therefore reductions, not of capital, but of annuities. That debt is continually spoken of as if it were composed of the nominal amount of our public securities; but it is really composed only of the annual payments guaranteed by those securities. Nothing is debt except what some person may, in justice or in equity, demand; and no one can claim from the nation any part of the principal of our public funds. The annual income which the stockholder derives from them, is all which, in any sense, is his right; but that right is inviolable. The State has not borrowed his money at interest, under an obligation of repayment, but has sold to him an annuity. To such a transaction, the words, *loans* and *debts*, *capitals* and *interests*, are not strictly applicable. It would now indeed be a vain attempt to banish even from our technical language a verbal inaccuracy so general and so long established. But, in the study of our national finance, the distinction

itself is of much importance. It has been very generally disregarded, and its neglect has greatly complicated these discussions, which for the public interest could not have been made too simple. In private concerns we find no such confusion. There, when annuities are intended to be sold, that purpose is so expressed: when money is lent, under an obligation of repayment, the sum advanced constitutes its principal; its interest is computed at the rate truly agreed upon by the parties; and its repayment at such periods, definite or indefinite, as they have stipulated, extinguishes the debt. In our public loans, on the contrary, we create an imaginary capital, to which we assign a fictitious rate of interest. A million of money is advanced to us at a real interest, suppose of six per cent.; but we grant in return for it two millions of stock, bearing an assumed interest of three per cent. And we reserve to the State a right of extinguishing that interest by a money-payment, not of one million, but of two. The substance of such transactions, and their relative advantage to the contracting parties, may indeed be presumed to be

little, if at all, varied by these singularly embarrassed forms. Competition, wherever it freely operates, has a natural tendency as certainly and as correctly to regulate exchange in these, as in any more simple dealings. But the fiction, if nugatory, is not therefore harmless. What fiction was ever harmless in finance? Many are the false reasonings, numberless and monstrous the projects of injustice which originate only in the misconception of these facts. What invidious comparisons do we not daily hear between the sums actually advanced to the state by its creditors, and the much larger amount of debt supposed to have been created in their favour! Had it been remembered that our debt consists only in annuities, no such error could have been committed. On this imaginary capital, swelled to whatever amount, the stockholder has no claim. It serves only to express the price at which the State may, at its own convenience, redeem its engagements. And this is an advantage reserved only to the debtor. By the State it has been sometimes

used to lower the rate of these annuities; as when, on a general fall of interest, the five per cents. have, by a tender of repayment, been reduced to four, or the four per cents. to three. But when interest rises, the stockholder has not, like the private creditor, a corresponding right of enforcing, by a demand of repayment, the proportionate increase of that annuity, which, as we have seen, constitutes his whole property in the debt.

All these particulars are of general notoriety. But familiar as they are, they have not always been present to the minds of those who have discussed these subjects. The least attention to them would at once have dispelled all notion of any undue advantage accruing to the public creditor, merely from the needless complication of the form which has been thus given to our loans. It would also have obviated an error, much less important certainly than this, yet not without its inconvenience; the habit, I mean, which is but too common even among the best writers on these subjects, that of esti-

mating, either wholly or in part, the comparative merits of different plans of finance, by their more or less rapid progress towards the extinction of that nominal capital, which is commonly believed to constitute our debt. It would be going perhaps too far to affirm, that in this respect all these plans are alike indifferent. But it may at least be most confidently said, that the diminution, not of the capital, but of the annual charge of this debt, is the main object to be kept in view for the promotion of the public interests, and for the alleviation of the public burthens.

If then, the purchase of these annuities is all which the sinking fund has contributed towards the reduction of debt, in what consists its benefit? Undeniably, in the release of so much of the public revenue as was appropriated to their payment. Such is indeed the familiar, perhaps the universal notion on this subject. The repeal of taxation is the advantage generally expected from the sinking fund. The nominal capital of a debt not demandable is comparatively indifferent to all, but all severely feel its annual charge.

And their hope is, that at some period, however remote, the gradual reduction of debt will finally reduce the taxation which now defrays that charge.

This is no doubt an object most highly desirable; and any real progress made towards its accomplishment must be recognized by all as an evident public benefit. To place at the disposal of the community any portion of its now appropriated taxation is, indisputably, to augment its wealth. And this is equally true, whether the taxes thus set free are thenceforth immediately repealed, or are applied either to fresh exigencies of the State, or to the more rapid reduction of debt. In all these cases alike, the immediate benefit accruing to the community from the purchases of the sinking fund is the same, in whatever mode it may subsequently be made available. What the nation first acquires in this case is a fresh command over its own resources; a new power, either of increased accumulation or increased expenditure. And who does not see that this is itself an increase of wealth?

§ 2. *The effective Operations of this Fund are supported only by surplus Taxation.*

But of the true value of this benefit we shall form a very different estimate, when we extend our inquiries to the means by which it has been realized. It is the result, we are told, of the purchases of stock made by our sinking fund. It is so. But whence was the wealth derived which this fund so employed? Whence could it be derived but from the public contributions: from the impoverishment therefore, in the first instance, of that very community which these operations are finally intended to enrich?

The national wealth of any country is nothing else but the aggregate of the wealth of the individuals of whom the community consists. And from this source all its public services are ultimately defrayed. The particular establishment which we are now considering was first founded on an estimated surplus of revenue; and its operations have

been effective only in so far as it has been supported by some actual surplus of that description. And what is the public revenue of any community, but that portion of its wealth which its legislature withdraws from private accumulation or enjoyment, for purposes deemed to be of common benefit? As long as in our own country these purposes included only the current services of the State, so much only as those services required, was withdrawn by taxation from private wealth. But when the reduction of debt was also to be attempted, this new charge demanded fresh sacrifices: and a surplus taxation was thenceforth levied on the nation, which otherwise would either never have been imposed, or, if already existing, might have been repealed. For every portion, therefore, of previously appropriated wealth, which our sinking fund has placed at the disposal of the community, it has withdrawn from the same community a corresponding portion of wealth previously free and unappropriated. This is an universal truth, which no details of num-

ber or amount can vary. Quantity forms no part of its elements. Whether the operations of this fund have extended to millions, or to hundreds of millions, their character is uniform. In every such transaction, national wealth has been purchased by the sacrifice of national wealth; the purchase has released taxation, the sacrifice has augmented it.

And here who can forbear to ask himself, in what respect it is a more reasonable or more real operation to reduce taxation by taxing, than to pay debt by borrowing? But I postpone for the present these reflections. The statement of this part of our subject is still incomplete.

§ 3. *The Reductions of Debt thus effected, are mere Exchanges of Equivalents.*

All direct benefit which results to the nation from the operations of this fund, is thus invariably purchased by a corresponding sacrifice, precisely of the same descrip-

tion. And it may with no less certainty be shewn, that in all these cases the benefit and the sacrifice have uniformly been of exactly equal value. The benefit has consisted in the purchase of certain public annuities, and in the consequent release of the taxation appropriated to their payment. The sacrifice has consisted in the cost of those purchases, and in the superadded taxation from which that cost has been defrayed. But, under the laws of this institution, in that respect justly and providently guarded against abuse, all these purchases have been made by free competition in the open market. Each portion of stock so bought was, therefore, at the period of its purchase, the precise equivalent of the money which was paid for it, and consequently the precise equivalent also of the taxation by which that money was levied. This is self-evident. When a shilling is the market price of a quartern loaf, those quantities of money and of bread are equivalents. They are freely exchanged against each other, and each of them commands the same quantities

of other commodities; of beer for instance, or of meat. And what other notion than this have we of equivalence? Such is not only the scientific, but also the popular view of this subject.

> "The intrinsic value of a thing," (says Hudibras)
> "Is just so much as it will bring."

Thus then do these operose and complicated transactions universally resolve themselves into simple exchanges of equivalents. They boast to have added millions to our wealth, to have removed millions from our encumbrances; and they promise to us a continual succession of similar, and increasing benefits. But every gift which they have conferred on the community, they had previously exacted from it. The water was drawn from the same reservoir into which it is poured back: some loss of it each of these transfers has produced; but what can either of them have added to it?

Disappointing as this statement is, when contrasted with the visions which once dazzled the imaginations of the wisest, yet

such we see must be the result, not of this sinking fund alone, but of every plan for buying up the public debts, at their market price, with the public money, whether raised by loans, or by taxation. The system is one of self-counteraction in all its parts. The money which thus redeems debt is all drawn from the wealth of the debtor; and the mode of the redemption shuts out all possibility of his profiting by the transaction. Both these circumstances prove alike, and beyond denial, the utter inefficiency of the whole project.

The great importance of this topic, in reference to the questions which now wait the decision of Parliament, has indeed alone led me to dwell upon it thus minutely. It is one example only of an universal and obvious truism. Every purchase made at the market price, implies on both sides an equal transfer of exchangeable value. How that price is adjusted by competition, and in what manner, by the very nature of that adjustment, it includes the due returns to the producers of the commodity, for the labour,

and skill, and capital, employed upon it, are things too well known to be here detailed. But when this adjustment has thus been made, the exchange of the commodity itself against its market price is, and must be an exchange of equivalents.

We may thus, I think, very confidently determine, that, notwithstanding all expectations, and all promises on the subject, the nation cannot possibly have derived any direct profit from a system of buying up its debts at their market price. Of its indirect consequences I shall hereafter speak. But the inevitable conclusion resulting from the premises which have been thus far stated, might, if it were necessary, be still further confirmed, by a reference to similar transactions in private life; the best of all instruments for the discovery of truth in political economy. Suppose, for instance, that, instead of our whole community, any one of its numerous merchants or manufacturers has borrowed money at interest, which he can repay only by withdrawing a portion of the capital invested in his trade. This, if

his creditor can demand the repayment of his debt, may be a necessary, but will it be a profitable operation? Will he voluntarily resort to it so long as no such demand can be made upon him? What will be its consequences? It will neither increase nor diminish the sum total of his wealth. He will owe less, but he will also have less. He will cease to pay interest on the debt which he discharges, but he will cease also to receive profit on the wealth which effects that discharge. This change in his affairs may probably subject him to loss: but how extraordinary would be the case in which it could produce to him countless and unmeasureable gains!

But this example, it may be said, applies only to so much of the national wealth as the taxes levied for the sinking fund withdraw from profitable investment. Be it so. What then is the case of wealth withdrawn for a like purpose from direct enjoyment? A landed proprietor, with money saved from the proceeds of his estate, buys out, at the market price, a rent-charge with which it

is burthened. What profit does he find in the exchange? By the saving he has no doubt increased his wealth. And thus also may a community enrich itself by saving, although no sinking fund had ever been once thought of. But the question here is, what fresh profit, what direct and immediate gain, belongs to this particular mode of applying such savings, after they have been already realized? The bargain has absolutely no such result. The landholder, like the merchant, extinguishes the charge to which he was liable, but he does so only at the cost of a full equivalent in the money which he possessed. The purchase, if truly made at its market rate, may be matter of convenience to him, but certainly not of gain.

In both these cases indeed, as well as in that which they are here brought to illustrate, the objects thus reciprocally exchanged are equivalent portions, not merely of wealth in general, but of the same particular class and description of wealth; equivalent portions of money. In the ordinary course of commerce, money purchases commodities

or labour; but in these transactions, money is exchanged against itself. It is in this article alone that the merchant and his creditor, the landholder and his annuitant, the public and its stockholder, deal with each other. The thing purchased is an annuity; in other words, a series of future money-payments; and the price given for it is a present money-payment of equal value. And that relative amount of each which constitutes their equivalence, wholly depends (all other things being supposed the same), on the current and known rate of interest at the period when the bargain is concluded; a matter of certain and familiar calculation. How vain then must be the hope of realising, from a long course of such exchanges, a direct, considerable, and, as some have thought, almost inestimable, gain! As well might we expect such profit from continually exchanging against each other equal values in the parts of a well-regulated currency; a thousand sovereigns against two thousand half-sovereigns, or a million of crowns against five times as many shillings.

If these notions are correct, it is quite evident that the conclusion which they establish cannot possibly be affected by any extraneous and contingent consequences of these measures. Such a transaction consists only in the mutual transfer, to one party of a present, and to the other of a deferred money-payment. When this transfer has been made, the business is concluded; and in estimating its actual profit or loss to either party, it must be matter of complete indifference in what manner the other party may thereafter employ the money which he has so acquired; whether he may apply it to productive or to unproductive use. The farmer who has sold his wheat at its market price, has obtained for it neither more nor less than a just equivalent; and this is equally true, whether the purchaser shall afterwards employ that article in reproduction, or in consumption; whether he shall sow it in his furrows, or grind it in his mill. The tenant who accepts his lease on equitable terms, does not concern himself to ask whether his rent will be expended in the purchase of horses or of books, in gardening or in building.

Yet, however fully our judgment may be satisfied, that the purchase of stock, at its market price, can produce profit to no one, I am well aware what deep and powerful impressions will still force back upon our imagination the belief, that any reduction of the public debt, by whatever extent, or accumulation of sacrifices it may have been effected, must, in its ultimate effect, be a measure beneficial to the community. If it be so in the case which we are here considering, we have at least seen that such benefit cannot be its direct and immediate result, but must flow from its more remote, and indirect, though possibly inevitable, consequences. That wide topic, and all which belongs to it, I have reserved to a succeeding portion of this Essay. For our present purpose, it is sufficient to remark, that if it be on any such grounds truly advantageous to the State to employ in this year any given sum, say five millions of money, in the purchase of stock, that advantage will be neither greater nor less, because a similar operation took place in the last year, or may be expected in the next. The profit of the

exchange so made depends in no degree on any progressive course or series of such measures. Nor is it consonant either to the dignity or to the wisdom of an enlightened legislature to guard against its own presumed improvidence by an engagement, directed only to distant and contingent benefit, and which, under many supposable events, may in the mean time be found to have been of very doubtful policy. Yet such is the conduct of every state which, instead of simply adopting such a measure whenever the circumstances of the time may appear to favour it, prescribes to itself, by law, and for its own supposed advantage, the inviolable maintenance of a sinking fund, appropriated under all possible events to the continuance of similar operations!

§ 4. *These Results have in no degree been varied by the Application of Compound Interest to the Operations of this Fund.*

Dr. Price, though far from concurring in the views here taken of this subject, was,

however, fully sensible how little progress could be made in the reduction of our national encumbrances by the simple application of any surplus which our revenue could afford. "It is far from probable," he says, "that any money which the nation can spare, if applied so as to bear only simple interest, can be capable of reducing its debts within due bounds, or of doing us, in our present circumstances (1781?) any essential service." * He strongly urged, therefore, the necessity of strengthening that feeble machinery, by what have since so frequently been termed the magical powers of compound interest. And magical indeed they appeared in his representation of them. "It has been said," (I quote his own words,) "that when money is wanted for defraying public expenses, it makes no difference whether it is obtained by diverting the sinking fund, or by a new loan. There cannot be a worse fallacy. Money in a sinking fund, if never alienated, is improved, I have shewn, at *compound* interest; but, when procured by a loan, bears only *simple* interest.

* Price, Obs. Vol. I. p. 201.

A nation, therefore, whenever it applies the income of such a fund to current expenses rather than the redemption of its debts, chooses to lose the benefit of compound interest, in order to avoid paying simple interest; and the loss in this case is equal to the difference between the increase of money at compound and simple interest. The following calculation will show what this difference is.

"One penny put out at our Saviour's birth to five per cent. compound interest, would, in the present year, 1781, have increased to a greater sum than would be contained in two hundred millions of earths, all solid gold. But if put out to simple interest, it would, in the same time, have amounted to no more than seven shillings and sixpence! All governments that alienate funds destined for reimbursements, choose to improve money in the last, rather than the first of these ways."*

What an astonishing disparity would this be, if we could see in it, as he did, the result

* Price, Obs. Vol. I. p. 227, &c.

of two different modes of employing, or, as he terms it, of *improving* the same amount of wealth! But, alas, the vision is too truly denominated magical! It is as unreal as it is splendid. While it yet dazzles our senses, and confounds our imagination, one drop from the pure fountain of science has already dissolved the charm. We look again, and, instead of the enchanted palaces, glittering with mountains and *earths* of gold, we see only the ordinary gifts of nature, and the products of patient and persevering industry. By these alone, as all reason and all experience teach us, can wealth be either created or multiplied: every other agency, pretending to any such effect, is mere illusion; transferring, perhaps, but never increasing riches.

The redemption of debt at its market-price can be accelerated only by applying to it additional means of purchase. And it is accordingly asserted that compound interest has actually furnished such additions to our present sinking fund; rendering it thereby, instead of a feeble and insufficient, a most effectual and powerful instrument of our public credit,

prosperity and wealth. This pretension I have already ventured generally to deny. These additions have been supplied, not by compound interest, but by surplus taxation, or by loans, which have again led to further taxation. This matter however must here be more particularly examined.

In what, then, really consists the application of compound interest to the institution of a sinking fund? Divested of technical language and visionary calculations, the answer is simply this. Such application consists in adding to the income of the sinking fund the annuities which that fund successively redeems. Those annuities, or, more properly speaking, the portions of revenue from which they were defrayed, are, as we have already seen, so many fresh surpluses, which the sinking fund annually places at the disposal of the community. And in the different modes of applying these surpluses consists, in this case, the whole difference between simple and compound interest. A system of simple interest leaves them applicable to the repeal of taxation, or to the exigency of any

other service ;—by compound interest, they are appropriated to the increase of the sinking fund.

These are the two modes of reducing the public debts, whose comparative efficacy Dr. Price professed to estimate. But in this parallel he has assumed, without proof, the identity of the amount of wealth so employed. The two operations are so far from being identical in this respect, that in this very point the difference between them essentially consists. The only reason why the same original sum employed at compound interest reduces debt faster than at simple interest, is because there is thus expended for that purpose, within the same period, a much larger amount of wealth. And what wonder is it, if with more money more stock is bought? Who does not see that a capital without its interest cannot be identical with the same capital increased by the addition of its interest; that an annuity of a hundred pounds is less than one of a hundred and five pounds, and that this difference will increase as often as fresh interests are added to the latter sum, while the

former continues unaltered? Must we not conclude, therefore, without meaning the smallest disrespect to the memory of Price, that his whole reasoning on this subject is fallacious? The results which he has so strikingly contrasted, the few shillings of the one case, and the inestimable riches of the other, are really the products, not, as his argument supposes, of the same amount of wealth differently employed, but of very different amounts of wealth similarly employed. He operates in the first instance with a single annuity of fixed amount, and, in the second, with a mass of annuities increasing by unlimited accumulation. And how could the difference of their power be less than infinite?

This whole matter of compound interest is, indeed, not a discovery in finance, but a mere question of numbers. We are told how much debt will in a given period be redeemed by a given annuity, successively increased in a given ratio. And what is this but a problem purely arithmetical? It depends on no principle of political economy. It leaves untouched that which is, in such a case, the

main object of inquiry for any practical result. These sums may be accurately calculated according to their prescribed data: we may by law appropriate such payments to the sinking fund, whenever we have the means of making them. But from what source will they be derived, and by whom will their charge be borne? On these questions the accountant is silent:—can the statesman therefore overlook them? They are the very tests of the whole merit of the system. They disprove alike the reality of its expected benefit, and the possibility of its long-continued operation. As fast as any such fund accumulates, the annual taxation must also accumulate, from which it is to be defrayed. If, instead of Price's two hundred millions of globes of solid gold, each of so many thousand miles in diameter, we could suppose his fund to have increased *only* up to as many ounces of the same metal, the taxes to be levied for it in a single year would fall little short of the whole nominal capital of our present debt!

And accordingly it is in this view of our subject, though seen on so much more re-

duced a scale, that the nullity of our actual sinking fund seems to me again to force itself upon us with irresistible conviction. All which it can have paid it must previously have received. And from whom? From the community itself. The original surplus which was its assumed basis, and the additional payments which have since been carried to it, under whatever name, all stand, as to their source and supply, precisely on the same footing. For many years both were alike procured by loan; and whenever this vain expedient has not been resorted to, both have been alike derived from surplus taxation. Every portion of unborrowed wealth which this fund has ever received, or poured forth, has been previously withdrawn by the State, for that especial purpose, from private accumulation or enjoyment. Taxes required for no other service, were, in the first instance, levied for the establishment of such an institution; taxes not required either for its establishment or its continuance, have been subsequently levied for the payment of the redeemed annuities by which it has been increased. Those annuities

had really expired; but the revenue appropriated to them was, under the name of compound interest, continued for the purpose of this augmentation. No difference in this respect, though much in others, can be assigned between the prolongation of old taxes, and the imposition of new.

Again, the sinking fund has, by the effects of compound interest, greatly extended its transactions. But this increase has in no-wise varied its results. The wheel is indeed enlarged, but it revolves round the same centre. Every part of it still returns in the same succession to the point from which it first sets out. The same process still operates only to the same effect, that of a mere exchange of equivalents. More taxes are paid by the nation, more money is issued to the sinking fund, more annuities are purchased for the public benefit; but the value of the benefit is as before absolutely limited to that of the sacrifice by which it is procured. We have varied the extent of these dealings, but their account is still exactly balanced. It exhibits on the one side a gain to the community by

the money-value of so many millions of stock purchased; and, on the other side, a loss to the community by precisely the same amount of money-value paid in the taxation levied for that purchase.

But however equal this exchange may in itself be, we must not think that its increased magnitude is therefore unattended with increased cost and labour. The fact is far otherwise; and throughout all these proceedings, every expense, and every sacrifice which they occasion, whether direct or indirect, from the first imposition of the tax to the final cancelling of the stock, is to be set down as so much loss to the community, for whose supposed profit alone the whole operation is conducted.

CHAPTER III.

OF THE ATTEMPTED PERMANENCE AND REPEATED INTERRUPTION OF THIS SYSTEM.

§ 1. *The expected Benefits of a Sinking Fund at Compound Interest depend on its unvaried Accumulation.*

How entirely the promised benefit of our present sinking fund has always depended on its permanence, is too manifest to require any proof. Its operations, slow and feeble in the outset, could become powerful only by its long and unvaried accumulation. It was a brook which, by the accession of many waters, might finally swell into a great river: stop or divert their currents, and it must return to its original insignificance.

But for this permanence, so necessary to such a system, can any adequate security be in any case provided? Experience warrants no such expectation. The first sinking fund, with all its strong Parliamentary declarations

and enactments of perpetuity, was speedily diverted from its purpose. That of 1786 was again, with studied, but vain solicitude, "fortified as much as possible against alienation." Such were the words, such the hopes of Mr. Pitt; but in its real operation his system has now little more of substantive existence than that which it replaced. And from these repeated failures there arises an almost irresistible presumption against the practicability of the design itself. To say nothing of Dr. Price, the original proposer of this last plan, Mr. Pitt and his coadjutors, by whom it was adopted and established, were no less solicitous than their predecessors had been, to ensure to their system in all time to come a firm and inviolable observance. They distrusted in their turn the wisdom or the public spirit of those who were to succeed them; and they hoped to provide for the true interests of posterity in this matter, much better than posterity itself. They laboured, therefore, to the utmost of their power to throw round this insecure position a fresh barrier of impenetrable strength. But they have failed of this, as

others had failed before them. And a review of the nature of their attempt, and of the circumstances and causes of its disappointment, must, I think, convince the most sanguine, that no better success can ever attend the renewal of any such endeavour.

§ 2. *Provisions adopted for giving Permanence to the Sinking Fund of* 1786.

The new securities then, which were established for this purpose in 1786, consisted solely of variations, not in the nature or substance of the system, but in the forms of its execution. The effective income of the present sinking fund is all derived, as we have seen, from one common origin in surplus taxation. But by the arrangements here spoken of, the component parts of that income were classed under two very different heads of payment. A fixed yearly allowance is appropriated to this service by Act of Parliament, and issued from the Exchequer to certain commissioners appointed by law. The same commis-

sioners also receive, though in another form, the payments accruing to this fund from the interests of so much of the stock which they have purchased, as still remains standing in their names. These last sums are issued, not directly to them, but to the Bank of England, on their behalf; being included in the general mass of dividends payable on the public debt. The law considers this stock not as cancelled, nor even as *redeemed*, in the common sense of that word, but as transferred from the stockholder to the sinking fund. That fund, however, we know, has not any substantive existence; it is a mere creature of our minds, an official form in which the State conducts one portion of its affairs. The nation is the true owner of these annuities. It has re-purchased them from its creditors with the public money; and it now pays them to itself with one hand, and receives them from itself with the other. They are called interests, but interests of a debt redeemed. A manifest contradiction in terms!

Here, therefore, we have again new fictions, and fictions surely not very happily de-

vised. What then is their object? Why should the Government apply its own money to its own purposes through the medium of a commission, nominally distinct from itself? Why does not the direct allowance of the sinking fund include all the revenue which the State appropriates to that service? Why do we call its officers its creditors? Why issue as interest what is paid for the redemption of debt?

To these questions there is but one answer. Such were the devices which were intended to give fresh security to this system. I can have no desire to speak slightingly of measures in which I myself concurred; far less of him by whom they were established. Of his virtues and talents I cherish an admiring and affectionate remembrance. But never would he have shunned the free discussion of any subject of public interest. I know not, indeed, what degree of importance he may have attached to these provisions; but some hope, some groundless hope, of their contributing to give permanence to his system, was unquestionably his only motive for their adoption.

Their suggestion was not originally his. The following passage will show in what light their real author regarded them. "Nothing," says Price, "can do us any essential service, but the establishment of a permanent fund that shall never be diverted. Establish such a fund; consign it to a particular commission, acting under penalties, in such a manner as shall take it out of the hands of the Treasury, and form a check on the House of Commons itself; supply from time to time all deficiencies, just as if no such fund existed; and, by these and other measures, convince the kingdom that something effectual is meant, and that the public debts are indeed in the way to be extinguished:—Let this be done, and we may soon see a new state of things; public credit may revive; and the kingdom enjoy at least a chance for being preserved."*

We have seen how closely this advice was followed. A parliamentary commission was appointed: it was composed of persons of whose fidelity in the execution of that trust no doubt could be entertained: To those officers was assigned the fixed allowance of this fund;

* Price, p. xix.

to them the redeemed stock has been transferred as debt; and to them its pretended interests have annually been paid. Nor was it doubted—vain imagination!—that Parliament had thus given to this re-established system some portion of the security of private right, some shadow of the sanctity of public faith. But what respect has, at any time, really been paid to these air-blown fallacies? To what respect indeed were they entitled? They assumed to themselves the imposing mask of property; but they partook neither of the rights nor of the duties of that great bond of social life: their whole efficacy was no more than that of a grant made by a man to himself, in trust for himself, and charged on his own estate! The debtor and the creditor, the receiver and the payer, the obligor, as our lawyers term him, and the obligee, were all in this case completely identified!

Yet were these fictions thought capable of deceiving, and in the highest concerns, the very Government by which they were fabricated. Their aim was nothing less than this: they were to induce the British Parliament to

act, in after times, in opposition to its own deliberate judgment of what might best promote the public happiness. If they failed of this, they did nothing: if they succeeded in it, what consequence could be more injurious, what principle more destructive of the duty of every Government towards those from whom it claims obedience?

§ 3. *Actual Failure of these Endeavours.*

But Parliament did not so abandon its high trust. These devices have in no case ever led to any practical result. So long as the legislature thought fit to uphold the sinking fund, they were never called into effect: no safeguard but that of the law itself was needed for its continuance. And when the necessity was felt, however late, of breaking in upon a system of such intolerable pressure, how easy was it found to overstep its imaginary barriers! By one measure, (I condemn not, but only state the fact,) there were taken from this fund more than five millions, (should I not rather say,

more than seven millions?) of redeemed annuities, the boasted accumulation of so many years.* Nor is this all. "Inroads," says Ricardo, from whom I transcribe this statement, "inroads more fatal than this," (for he considered as fatal in this case that of which I deem far otherwise,) "have" [since] "been made on the fund itself; but they have been made silently and indirectly, while the machinery has been left unaltered." The policy of these complicated operations I have not the smallest disposition to discuss. Principles, not measures, are the object of this inquiry. But when we look to the general result of all which has been done in this matter, from the first creation of this fund down to the present year, what do we find? This system was established in 1786. Its great and overwhelming power was to consist in the rich stream of accumulated revenue which its redeemed annuities

* Ricardo, Supplement to the Encyclopedia Britannica. Art. "Funding System," pp. 414 and 423.

In the first of these two passages he explains in what manner while more than seven millions of such annuities were deducted from the sinking fund, more than two millions of income were at the same time professed to be added to it in another form. But these details are foreign to my purpose.

were, after a long course of time, to pour into the sinking fund. Above forty years have since elapsed, and the annual amount of that fund, including all the sources of its income, was at one period actually stated, if I mistake not, in our public accounts, at more than seventeen millions.* But in 1827 there were carried to it, I believe, on account of redeemed annuities, not quite seven hundred thousand pounds; and, with a very small exception, all its other income then consisted only in its fixed allowance; which had been nominally augmented by law from one million to five, but of which every farthing was in that year raised by loan!

To this statement what can be added? What can more completely prove the inefficacy of every attempt made in the re-establishment of this system to guard against its justly apprehended violation?

§ 4. *Causes of this Failure.*

Nor is there any difficulty in assigning the true causes of the interruption of this in-

* See Ricardo, as above.

stitution. They are to be found in those very circumstances to which we had looked for its chief benefit; in its unvaried continuance, I mean, and rapidly progressive augmentation during so long a course of war. For in what did this augmentation really consist? What did it in fact accumulate? Not the wealth of the State, but its expenditure; not the resources of the country, but their comparatively unprofitable application to purposes of no present or sensible advantage. Year after year this fund claimed from the public treasury larger and larger payments; but its operations added nothing to the means of supplying these constantly increasing demands. For that purpose fresh provision was always to be made. And thus, throughout the whole of that long and perilous contest, were all our efforts, and sacrifices, and burthens continually multiplied by this project of imaginary benefit. And if, as was once boasted, the national distress itself accelerated the progress of that system, exactly in the same proportion was its pressure aggravated on a community tasked almost beyond its strength.

This is, indeed, but in very different degrees, the necessary result, the inevitable self-counteraction of every such establishment, in both the opposite cases, of a surplus, and of a deficient revenue; cases which this system so strangely confounds under the same provisions. Possessing an effective and permanent surplus, a state may maintain a sinking fund, even at compound interest, without resorting to still further taxation. The fixed allowance, and the successively redeemed annuities which compose the fund, will severally continue to be defrayed from the same revenues as before; and, by the progressive addition of those annuities to the fund itself, it may ultimately be carried to any extent not exceeding their amount. But even under these circumstances, favourable as they may seem, it is still evident that the nation will be making, year after year, greater and greater sacrifices for the maintenance of this establishment. The nominal capital of debt will, it is true, be lessened; but (which is alone of real importance,) there will be no corresponding diminution of its annual charge, nor, consequently, of the

taxes which support that charge. The same burthens will be continued; no longer applied to the payment of the public creditor, his claim being extinguished, but constituting the progressive augmentation of the sinking fund itself. And every succeeding period will thus increase, not indeed the total amount of the national taxation, but the proportion of it levied for the sole purpose of upholding this visionary project. Such is the sacrifice which that purpose must exact. And for this great, immediate, and increasing evil, what return does it offer? The hope only of a speculative good, deferred to some indefinite but distant period, and even in its ultimate effect, productive, as we have seen, of a very questionable and equivocal advantage.

Wisely, therefore, would the rulers of any community, in the most prosperous condition of its finances, cast off these artificial trammels, and apply themselves to the direct interests of those whose happiness is their primary and especial charge. Such a decision indeed would be of no doubtful expediency, even if we could dismiss all present concern for the

public welfare, and look only to the ultimate increase of wealth. All possible advantage of these operations, in whatever form conducted, must at last resolve itself into a diminution, more or less remote, of the public burthens; and to postpone for so long a period so great a good, when already partially within our reach, is to presume far too much on the powers of human foresight, and the stability of human institutions. An earlier, although more gradual, repeal of taxes, would spread its benefits in a thousand fertilizing channels over the wide field of social industry; and never could its absence be compensated by any forced direction given, after a dreary vacancy, to the produce of the same sources pent up till it bursts these artificial barriers.

So stands this question, even in the case of an actual and permanent surplus. But far different were the circumstances to which we had for so many years applied this policy; and, consequently, far otherwise had it affected our public happiness. Its progress had been marked by the growth, not of a surplus, but

of a deficiency. Instead of merely prolonging at the same amount, but in a period of comparative ease, our previously existing burthens, it had compelled us, in our utmost need, to heap loans upon loans, and taxes upon taxes, in a series of unlimited accumulation.

During much the greater part of its existence, all its operations had been conducted under the pressure of a large deficiency of revenue: and that deficiency it never failed to increase by the full amount to which those operations were carried. This was indeed, under such circumstances, its natural, its inevitable consequence. Whenever in any country the interests of unredeemed debt, and the charges of civil and military services, exceed the public income, there is already a deficiency which must be covered by taxation or loan. And if in this, the probable condition of all war,—the actual condition certainly of all wars which we have seen,—any attempt is made to pay off former debt, it is manifest that to the full extent of that endeavour, a new deficiency is created, to be provided for by a new resort to the same sources

of supply. In all times of war, or of otherwise deficient revenue, this is the condition of all sinking funds, with whatever art constructed, and covered under whatever name. Their whole amount, all their fixed allowances, all the redeemed annuities, and all the pretended accumulations of interest, by which they are increased, serve only in such a moment to swell the long schedule of taxation, and to impose on the community fresh difficulties superadded to those which its public service would otherwise create. Need I add, that in our own case, the mischief of these measures had been found, as it always would be found, very far to exceed the direct sacrifice which they exacted? They had crippled the whole power of the State; they had rendered all its operations both more difficult, and more costly. In addition to the war-loans, we had, year after year, sinking fund loans, rapidly increasing, and ultimately of very large amount. Both therefore were raised at greater disadvantage. To the new charge of interest created by the former, a further and similar charge was superadded by the latter.

To neither of these new services were the annuities to be redeemed by this increasing fund at all available. Both were to be met always by fresh taxes; and who has not observed that in proportion as our taxation was increased, its selection became more difficult, its pressure more severe, and its produce relatively less abundant?

The ultimate suspension of this fund has thus been the direct consequence of the endeavour to continue it throughout a period so peculiarly ill-suited to its operations. Too much was attempted. But that attempt was of the very essence of the establishment itself, whose provisions were expected to derive fresh strength from all such difficulties; and may we not hope that this decisive experiment of its results will now lead to the total abandonment of a system so oppressive at once, and so inefficient?

But the extent to which so long a perseverance in this error had already injured the public interests, cannot, I regret to say it, be fully estimated without considering the subject in still another point of view: with refe-

rence, I mean, not only to these continually increasing loans, but also to the extraordinary taxation which was so largely resorted to for defraying the expenses of our two last wars. I speak not here of the expediency of such a system, as applicable to a real war-expenditure: that is a point which seems to me to depend wholly on local and temporary circumstances; on the condition and prospects of the country in which such a question may arise. But, in our own country, and in the periods of which we are now speaking, the expenditure for which we thus provided, was not limited to the charges of the wars in which we were engaged. We had undertaken to maintain, also, throughout the long and unforeseen duration of that great exigency, a rapidly increasing sinking fund; a fund, never to be made available to any present uses of the State,—no, not in its utmost necessities,—but continually to be augmented for the benefit of some remote posterity, by fresh sacrifices exacted from a people then actually struggling for independence and national existence. Let then my reader determine for

himself on these facts thus brought to his recollection, what proportion of the war-taxes, as they were then termed, how much of the income-tax for instance, or of the property-tax, was really levied, not for the maintenance of a war, whose maintenance would have justified any sacrifice, but to uphold during that war a system which superadded to its pressure this great mass of unnecessary burthen. Thus much at least is evident, that all the expenses of that war might still have been defrayed, and all its efforts made, with equal, I should rather say, with much more vigour and effect, had either these additional loans, or these additional taxes been spared to us by an earlier discontinuance of a system, from which we were at last driven by this unavoidable, but so long unforeseen and unimagined necessity!

Conclusion.

Throughout the foregoing pages, all question of the indirect advantages so commonly attributed to a sinking fund, has been studiously reserved to the concluding portion of this Essay. I have long thought, that nothing would so much forward the pursuit of truth on this whole subject, as the distinct and separate examination of its numerous and complicated questions. Their confusion has appeared to me the source of much error. This course should however be extended alike to every part of the discussion: and if I have hitherto limited these researches, imperfect as they are, to the direct benefits expected from a sinking fund, I am not the less aware that, without a similar inquiry into its indirect advantages, one part only, and perhaps the least important part, is even thus far accomplished of my original design. Many, who will readily disclaim all hope of direct public

benefit from a sinking fund, whether in peace or war, at simple or at compound interest, will nevertheless still firmly cling to its continuance or renewal. They will admit, perhaps, without hesitation, that a nation can no more profit by thus trafficking with itself in its own securities, and buying debt with debt, and money with money, than an individual could by shifting his purse from one pocket to another, or his bank-notes from the upper drawer of his cabinet to the lower. But they are impressed with a deep sense of the more remote and incidental, yet, as they believe, unquestionable advantages of such an institution. Those advantages would indeed be differently described by different persons. They are very commonly supposed to consist in more than one particular; and they are of course more difficult of examination, in proportion as they are in their own nature, or in the accounts thus given of them, more vague and indeterminate. But they may mostly be reduced, I believe, under the four following heads.

1. By some this system is recommended—

it was so, if I mistake not, last year, even by Mr. Canning himself—as a resource in unforeseen emergencies.

2. Many have insisted, and still insist much on its good effects, in raising and upholding the price of stocks.

3. Others again, men of great knowledge on these subjects, and high authority, strongly rely on the advantages which it affords in the compulsory accumulation of the national wealth, and in the forced diversion of that wealth from what they deem unprofitable expenditure, into the mass of productive capital.*

4. A still more flattering, but much more general picture is drawn by others, of the increased confidence produced both at home and abroad in the stability of our financial system, when it is seen annually to allot such overwhelming sums to the reduction of debt; an operation so naturally considered at first

* See Ricardo, Supplement to the Encyclopedia Britannica. Art. "Funding System." p. 420 and 421 : but in this description I had also in view other reasonings which I have heard and read, insisting more fully on these topics, and to which I had hoped to have devoted much more attention in this Essay.

view as an almost infallible symptom of increasing wealth.

To me it appeared, when I first entered on this attempt, and I still firmly believe, (but I speak here with all the deference with which I ought to speak in such a case,) that there could be little difficulty, either in pointing out, or in unfolding the general topics by which these notions may be successfully opposed.

1. On the first of them, that which relates to the provision said to be afforded by such a fund against unforeseen exigencies, it is obvious to remark, that this assertion rests solely on what I cannot but call an inaccurate use of the principal term in the discussion. Any portion of income available for such purposes, is manifestly not a sinking fund, but a disposable surplus of revenue. The benefit of such a surplus, if permanently to be kept up to any considerable extent, is itself not a little questionable. It begins in needless taxation, and would too probably lead to needless expenditure. But what has this discussion in common with that of a

sinking fund? The surplus is assumed to be disposable, the sinking fund is already appropriated to the redemption of debt.

2. In discussing the supposed tendency of these systems to raise and uphold the price of stocks, we should, in the first place, not hesitate absolutely to deny that it can be either expedient, or just, to give to one large description and class of property an artificial value, by burthens imposed for that purpose on all other property. But may it not also be confidently asserted, that no such effect can, generally or permanently, be produced by the purchases of a sinking fund? Whatever raises the price of stocks, renders them comparatively a less profitable employment of money, and tends therefore to divert capital into other investments until the natural level be restored: an effect most extensively exemplified in our own country, even within the last few years.

3. The third point involves a question of more extensive and important, but, if I do not greatly deceive myself, of not much more difficult investigation. The very benefits themselves which are relied on in this case, the

forced accumulation, the compulsory saving, the artificial direction of private wealth, are all, as it seems to me, directly opposed to the first principles of political economy. Such endeavours would lead us, and by no strained consequence, to the most exploded errors; to the hoarding of a public treasure, or the imposition of sumptuary laws. The proper aim of legislation in these matters is not the multiplication of wealth, but the multiplication of that social happiness which is derived from wealth, and which consists essentially in its use: in its wise, and virtuous, but free use. And that this freedom, while it gives to wealth its highest value, has also been made, through the provident constitution of our nature, the most effective instrument of its increase, is the beautiful discovery of modern science. The government which seeks to enrich its subjects by directly or indirectly narrowing their enjoyments, not only sacrifices the true objects of its care to the imaginary means of their attainment, but also powerfully obstructs its own misdirected purpose, and counteracts the appointed means of human civilization and improvement.

4. On the fourth point, there is a still readier answer. The security at which a wise government will aim is to be looked for in actual, not in imagined strength. To the wisdom of domestic councils, to foreign authority and influence, nothing is more detrimental than the false confidence, and vain ostentation of unreal power.

Finally, in the conclusion of the whole inquiry, it may, I think, be undeniably demonstrated, that the great source of all error on this subject, if error it be, has been the spirit and love of system; one of the foremost of those *idols*, as Bacon terms them, by which the heart of man has, in all ages, been allured from the simple pursuit of truth. In the popular discussion of these matters, the wisdom has been, very generally, but quite gratuitously assumed, of establishing in this respect an uniform, permanent, and, if it had been in our power, an inviolable course of policy. But to determine whether any,

and what portion of national wealth shall, at any given time, be withdrawn by taxation from private use, for the reduction of public debt, is not a question of abstract science. No decision can more essentially depend on the ever-varying consideration of contingent and fluctuating circumstances. None therefore can be fitter to be reserved for the annual revision of a wise and cautious legislature. What then shall we say of a system which anticipates such determinations for long periods and cycles of future years; having no reference to the chances or changes of human affairs, but regulating the eventful interests of a great community by an unbending arithmetical progression, or by the workings of a rule in algebra? If this be wise, why do we not also fix by the same principles the numbers of our fleets and armies, to be maintained unalterably in every contingency of peace or war, of profound security, or of fearful and imminent danger?

We are well assured, that the course of knowledge amongst us is not now retrograde,

nor the spirit of patriotism declining. Well therefore may Parliament, in a matter of so great uncertainty, forbear to prescribe to future generations new plans and systems of finance! Well may that body to whose vigilance and wisdom the present safety and welfare of their fellow-subjects is committed, leave it to those who shall come after us to exercise on their own behalf a similar discretion! Other, and more urgent duties now claim from the legislature its undivided care. Much has been auspiciously begun, much is at this hour in progress, and much more yet remains to be accomplished, for the cultivation and improvement of those great national interests which now lie before us in actual operation, or in immediate prospect; for the civil and religious freedom of all the members of the community; for their

"Union, and firm faith, and firm accord;"

for securing to them justice, not impartial only, but cheap, and speedy, and effective,—a blessing above all estimate; and for carrying to its utmost possible extent the unre-

stricted liberty of their industry and commerce. It is by the undeviating pursuit of this liberal and enlightened policy, advancing always with the advancing science of our country, that the surest of all foundations will be laid, not only for her present happiness, but also for her future prosperity and glory.

Thus much I have ventured to suggest for the consideration of my readers, as to the indirect advantages of a sinking fund, and as to the general policy of attempting to give permanence to such a system. Could I have executed my purpose, these interesting topics would have been much more fully considered in the second part of this work, and in its conclusion. What I have here stated is only the bare and unshadowed outline of the view which I had taken of them. It is the powerless skeleton of an argument, which, if clothed with however small a portion of the substance and energy of life, and animated, as it would have been, with the spirit of sincerity and public zeal, might, I once hoped, have been of some practical benefit in a deliberation, whose

importance hardly can be over-rated, since it involves nothing less than the policy of now adding or not adding some millions to our annual taxation. But this task, undertaken from motives of which I still feel all the force, I have been compelled to suspend; and even if the power of resuming it should return, the inducement will probably have ceased. This great question will have been decided: and may its decision be such as may best promote the happiness of all!

Νικώη ὅ τι πᾶσιν ὑμῖν μέλλει συνόισειν!*

* Demosth. Phil. 1. in fine.

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A

LETTER

TO

LORD GRENVILLE.

A LETTER

TO

LORD GRENVILLE,

ON THE

SINKING FUND.

BY

THOMAS PEREGRINE COURTENAY, Esq., M.P.

LONDON:
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MDCCCXXVIII.

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PREFACE.

It is perhaps necessary to assure the reader that, although the following observations proceed from a person who holds an office under His Majesty's Government, they express only the sentiments of the individual writer.

He is entirely ignorant of the opinions entertained by the Cabinet, or by the Ministers of Finance, upon the great financial question now at issue.

He thinks it also necessary to apologise for the length of this tract. He was desirous of giving a full, historical, explanation of the system of finance, established by Mr. Pitt the author of the Sinking Fund; and he was also desirous of pursuing Lord Grenville's argument, point by point. He fears that the connexion of these two purposes has occasioned repetition.

CONTENTS.

Sect.		Page
1.	Introduction	1
2	Principle of the Sinking Fund	7
3.	On the Essay, Chap. I.—Necessity of a Surplus Revenue for the support of a Sinking Fund	12
4.	History of the Sinking Fund of 1716	22
5.	Mr. Pitt's system of Finance; Sinking Funds of 1786 and 1792.	30
6.	On the Inutility of borrowed Sinking Funds; and Inefficacy of Sinking Funds operating in War	38
7.	On the Essay, Chap. II.—Operation and results of the present Sinking Fund;—its benefit consisting in the release of previously appropriated taxation	48
8.	On nominal Capitals given for money borrowed	51
9.	On the operation of the Fund, as supported by surplus taxation	54
10.	On the reduction of Debt, as effected by mere exchanges of Equivalents. Compound Interest	55
11.	On the Essay, Chap. III.—Attempted Permanence and frequent Interruption of the System	59
12.	On the benefits of Compound Interest; provisions adopted for giving permanence to the Sinking Fund of 1786	61

Sect.		Page
13.	On the actual Failure of these endeavours; history of Mr. Pitt's Sinking Fund, 1786 to 1793; effects of taxes, and their repeal . . .	63
14.	Sinking Fund during the war of 1793 . .	79
15.	Modification of the Sinking Fund in 1802 .	89
16.	Sinking Fund in the war of 1803 . . .	92
17.	Modification of the Sinking Fund in 1813 .	93
18.	The Sinking Fund during the present period of peace; Repeal of Taxes; Dead Weight . . .	100
19.	Alleged Failure of the System generally . .	108
20.	On Lord Grenville's conclusion; supposed advantages of the Sinking Fund	113
21.	Concluding Observations and Suggestions .	118

LETTER

TO

LORD GRENVILLE.

My Lord,

Though not unused to political controversy, I undertake, with unfeigned diffidence, the task of commenting upon your Lordship's Essay. I never read an appeal to the public, more likely to produce the effect which it contemplated. Your authority as a statesman, great for the last forty years, is strengthened and embellished by the absence of personal interest. The ingenious malignity, often effectual against ministers, cannot impute to your Lordship, retired among your pines, and disconnected from parties, any other motive than that which you avow;—a desire to advise your country

" in a discussion of urgent interest, and permanent importance."

The advice, moreover, penetrates willing ears, because it tends to reconcile duty and inclination. Its effect is to relieve government from an invidious task, and the country from a burdensome obligation. I will not say, considering your lordship's peculiar situation, that these circumstances justify a distrust of the advice; but I do submit, that they detract much from the value of the testimony which is borne to the soundness of that advice, by the sympathy, and the applause, with which it is received: at the least, I may urge them as a part of my own justification, for setting forth my doubts as to the wisdom of the counsel.

I am painfully sensible of the inequality of the contest in which I engage. The opinions of a subordinate official man have no extrinsic value; they can derive no weight except from the force of the arguments which support

them. Nor could I with perfect confidence repel an imputation, that they are tinged with prejudice. I do not wish to deny, that my notions of public finance were formed in the school of Mr. Pitt, the author of the measure which it is now proposed to condemn; of that great and amiable man I have an affectionate remembrance which has tempted me, in the society of his successors, to exclaim:

"*Heu! Quanto minus est cum reliquis versari, quam tui meminisse!*"

This feeling, I own, has generated an unwillingness to admit, that his principles, in any branch of political science, were fundamentally wrong and dangerous. I make this admission, because, though probably neither Lord Grenville, nor the public, knows enough of my history, to lead either to ascribe my opinions to this prejudice, there are those in high places who, being aware of the pertinacity with which I have, for more than five

and twenty years, advocated the principles of Mr. Pitt's Sinking Fund, (though I have certainly modified some of my notions as to their application) may detract, on that account, even from such weight as belongs to my opinion. All that I desire is, that while I claim no credit for the deep and continued attention which I have bestowed upon the matter in question, my suggestions may not receive less than their due consideration, because the opinions on which they rest were learned in youth from an admired master.

Your Lordship deprecates an imputation opposite in its kind. I subscribe readily and heartily to the forcible observations, which you have made, upon the arrogation of political consistency. No doubt, it is peculiarly absurd, for us who make a daily boast of the progress of science and intelligence, and thereupon justify important changes, to confine each individual man to the opinions which he may have originally formed or im-

bibed; whatever may be the duration of his life, or the variety of his experience. According to this plan, error has a life-estate in every living mind; the heir may discard it, but the existing possessor must sustain it.

From your Lordship, apologies for inconsistency were quite unnecessary; but here again, I must make a distinction between him who gives, and those who follow, the advice. Pre-conceived opinions, and the doctrines inculcated by departed authority, may unquestionably lead to a dangerous persistance in error; but there is another danger, not entirely to be disregarded; the very progress of improvement, and the habit of discarding opinions formerly sacred, engender an aptitude to dissent, and a love of paradox. Some men, afraid of giving too much weight to opinions consecrated by time or authority, are tempted to give too little. I am persuaded that, among a great portion of the House of Commons, and of literary and poli-

tical writers of the present day, contradiction to an opinion received twenty years ago, would be the characteristic of a doctrine most likely to ensure its reception.

Again, exaggeration on one side, produces depreciation on the other. A measure or a doctrine truly wise or sound, is commonly praised even far beyond its merits, and, usually, praised ignorantly and inaccurately. This has been eminently the case of the Sinking Fund; its invention has been spoken of as an effort of genius, and its operation as a work of enchantment. It is not unnatural, that the real beauty of a figure so tawdrily disguised, should not always receive the praise, which it deserves in its native simplicity.

It appears to me that, as well in the formation of your judgment, as in the argument in which it is conveyed, you lay too much stress upon adventitious and incidental circumstances; you combat opinions which are un-

justly imputed to your opponents: above all, you entirely neglect the fundamental principle of the measure which you condemn. You have, therefore, not presented to the public the question which they are required to decide. This view of the defects in your lordship's treatment of the great subject of controversy, emboldens me to offer the following observations.

§ 2.

You have no where, as I humbly submit, distinctly stated the true principle of the sinking fund: this is,—*That the Legislature ought not to impose a perpetual burden upon the resources of the country.* Those who have the supreme power of the state at any particular period, ought not, indefinitely, to anticipate the means wherewith their successors are to administer its affairs. They must not provide for the expenses to which they are subject, by a perpetual mortgage of the ren-

tal and income of the people, for all ages to come. They must, themselves and their existing constituents, bear the additional burden, which is necessary to avoid such perpetual or indefinite anticipations.

These maxims, which in truth are only various expressions of the same meaning, constitute, as I suggest, the principle of the sinking fund; that upon which it is endeavoured to give to arrangements for redeeming the public debts, the character of sacred obligation, and fundamental law.

I may be under a prejudice, or a delusion, but I own that the principle appears to me to be obviously just.

It is, indeed, only the application to the whole rental and resources of the country, of a principle which our law has, by repeated acts, imposed upon all those individual or corporate proprietaries, which have a perpetual succession: upon the crown, for instance, and the church. A corresponding restriction

is voluntarily imposed by the acts of individuals, who leave their property to more than one heir in succession; all, but the last, (and in the case of the state, the crown, or the church, there is *no* last) are limited in their power of charging the land, for jointures, marriage portions, and other perfectly legitimate expenses: still more, in their power of mortgaging it for personal debts.

Distinctions might, unquestionably, be shown between these cases and that of the state; but I am the more confident in using them as illustrations of my position, because your lordship has correctly observed that "a reference to similar transactions in private life is the best of all instruments for the discovery of truth in political economy."*

There is, indeed, a class of public debts to which the limitation of duration is applied by law. Parishes, and sometimes, I believe, counties, are empowered to raise money for

* Essay, p. 41.

certain public purposes, by anticipation of their rates; parliament has never thought fit to allow of a perpetual charge upon these funds. The power of charging is, usually, for twenty-one years, within which time, the debt must be discharged, either by the original terms of the loan, or by the application of a sinking fund. Yet the purposes for which this charge is permitted, are not usually ephemeral; and a perpetual mortgage might be allowed, with, at least, as much reason as in the case of a national debt.

The sovereign power of the state is uncontrolled by laws; humanly speaking, it is omnipotent; but it surely will not be contended that those who exercise it are not under an obligation, I would even say a moral obligation, to regard the interests of their successors and descendants. If the payment of taxes is burdensome to the people, and the operations of finance are difficult to the legislature, it is not just or equitable for the

occasional holders of the power, to relieve themselves by imposing that burden and difficulty upon those who are to follow them. It is quite unnecessary to consider here, in what degree taxes are an evil; because, if they are not so, and if there be no difficulty in raising them, we can have no excuse, nor, indeed, any advantage, in borrowing money for our own expenses, and throwing the interest upon posterity. The measure which we take to ease ourselves of the weight, proves that it is a burden disagreeable to be borne.

It is strange, indeed, to listen to what one frequently hears, an objection to sinking funds, as attempts to bind posterity. Do not those who make the objection, does not your lordship, perceive, that the law of the sinking fund only imposes upon posterity an obligation, from which, at most, they may rid themselves by a sacrifice of uniformity or consistency; while the obligation imposed by the law

which creates a perpetual annuity, can only be renounced through a breach of faith?

Thus much, preliminarily, on the principle. I will now follow your lordship through the details of your argument; and shall have frequent occasion to enforce and illustrate the fundamental doctrine, the maintenance of which is essential to the greater part of what I shall offer, in opposition to your several propositions. Perhaps, the arrangement which you have made of your argument, is not the most convenient for discussing the question in reference to that doctrine; but I still think it best to pursue the Essay through its regular course, as well in deference to your lordship, as because it contains very few observations which are not worthy of separate notice.

§ 3.

You begin by laying down as a rule, "The "necessity of a surplus revenue for the sup-

" port of a sinking fund*." And from this you, naturally and reasonably, deduce the two further positions; the one affirming " The " inutility of borrowed sinking funds†;" the other, " The inefficacy of sinking funds ope- " rating in war‡."

According to my principle, the parliament which raises money by anticipation of the revenue, is limited as to the period for which the mortgage is to endure. The plainest and simplest mode of effecting this limitation is, by borrowing money upon an annuity, to exist only during the limited period. When this mode is adopted, we pay for the money borrowed a temporary interest, exceeding, perhaps, by a fifth or a sixth, that to which we should be liable if we agreed to pay the interest for ever. This excess necessarily obliges us to appropriate, if it exist, or to create by taxation, if it do not exist, so much of surplus revenue. And there is in

* Essay, p. 5. † p. 7. ‡ p. 12.

this case no question; the whole money must be raised, or we are bankrupts; but there is no reason for raising any further surplus with a view to redemption. The sinking fund is inherent in the original annuity.

I would here stop to ask your lordship, whether, if it were practicable, without loss, to raise all our loans upon such terminable annuities, you would think it unadvisable so to raise them? I am really not aware, how you would answer this question; but I am sure that you perceive at once, that an answer in the affirmative, implies an adherence to my position, that we ought to subject ourselves to additional taxation, in order to lighten the burden upon posterity.

I would almost venture further to ask you, whether it would not have been beneficial to England, if there could have existed, during the last century, a fundamental and irrepealable law, limiting the power of parliament in its mortgages of the revenue?

However, no such constitutional limitation does or can exist; and there are, we know, practical difficulties in the way of borrowing upon terminable annuities: the lenders are unwilling to take such annuities, at their proportionate value to perpetuities. In borrowing, therefore, upon them, we not only incur an additional charge, as before stated, for the sake of redemption, but we also pay for this unwillingness of the lenders.

It is not to our present purpose to inquire, whether there has not been sometimes a too ready acquiescence in this unwillingness; I pass then to the other mode, by which the limitation of the mortgage is to be effected.

This mode consists, in borrowing upon a perpetual annuity; setting apart, in addition to the interest, so much of revenue as will redeem the annuity within the period limited The manner in which this additional revenue is applied, is indifferent, provided that it so operates as to set free, at the end of the pe-

riod, revenue equal to the interest of the loan. It may be applied in the purchase, in the market, of the particular securities which occasion the appropriation; in the purchase of any other annuities of equal amount; or in any other mode whereby the charge which will remain upon the resources of the state at the expiration of the period, is proportionably diminished.

It is unquestionably true, that the additional revenue destined for this purpose, ought to be a clear surplus, beyond all charge for the interest of debts, and all other permanent charges upon the revenue; and it is also true that it ought to be a surplus beyond the amount of the ordinary expenses of the state existing at the time, even though those expenses are not in their legal form permanent; the appropriation would be otherwise evasive and nugatory.

So far, then, I concur in your lordship's first position. And yet, I do not admit as a

necessary consequence of this position, that the appropriation is always absurd or inefficacious, when there may happen to be, in one or more of the years in which it endures, a deficiency of revenue, occasioning a new debt.

My difference from your lordship upon this point, is a necessary consequence of my principle of a sinking fund. The surplus from which that fund is to be supplied may cease for a time, and the condition which has been prescribed, as to the duration of charge, may, nevertheless, be strictly preserved. This happens when (as in the year 1827, to which you refer*) a deficiency occurs, which there is good reason for supposing temporary; an anticipation then takes place of the resources of the next, or next two years immediately following. No permanent charge is, in this case, created; if the deficiency still continues, the principle would assuredly require

* Page 10.

that it should be supplied by the creation of a new revenue. The principle is in either case maintained. In my opinion, we ought always to keep up an average revenue, exceeding in amount every permanent and ordinary charge; so as to meet the accidental occurrence of a deficiency: but if this provision has not been made, the temporary deficiency must be met by a temporary expedient; and every thing then proceeds as before.

Perhaps, you may suggest that, even according to my principle, the object would have been equally well effected, if we had suffered the appropriation to be suspended, until a returning surplus had supplied it, and replaced the fund in the condition to which an uninterrupted appropriation would have brought it. I confidently aver, that this mode would have been, in every respect, more inconvenient, and would have led to greater complexity of account, than that of issuing Exchequer bills. If, indeed, your lordship had

not specifically mentioned the measure of 1827, I should scarcely have ascribed to that occasional measure, the strong and contemptuous expressions which you have directed against " borrowed sinking funds."

Your observations, I will presume, are rather applied to the systematic existence of a sinking fund, continually supplied by borrowing; or, what you deem the same thing, the continued existence of a sinking fund, while the revenue falls short of the expenditure and the deficiency is supplied by loans; so that stock is sold and bought by government at the same time: and you thence urge the impossibility of keeping up a real sinking fund in time of war, when there is a constant and certain deficiency of income.

I have already admitted, that the surplus constituting a sinking fund, ought to be a surplus, beyond the ordinary expenditure. I have thus conceded to your Lordship all that you object to sinking funds, systema-

tically supported by loans in time of peace. The sinking fund ought in such a case to be either restored to its due amount by taxation, or avowedly reduced to the amount of existing surplus. It can scarcely be necessary to argue, that the state ought, in common prudence, and, with a view to its power of conducting any war which may arise, to apply some surplus, or at least to make no addition to its debt. At all events in time of settled peace, the finances ought to be, and may be, placed upon a regular and almost certain basis. The legislature has an opportunity of fixing the scale of its expenditure, its taxation, and of the surplus, if any, which it will apply to the reduction of debt. It may determine, and act upon, the principle, whereby the apportionment of the burden of taxation between present and future times is to be fixed; and the reason, sometimes urged for maintaining a nominal sinking fund, the preservation of a dormant principle

to be hereafter restored to activity, has no force at such a period.

I am prepared to admit, further, that an adherence to the name, and forms of the sinking fund, is equally useless and absurd in war, unless the financial arrangements, including that sinking fund, proceed upon a plain and intelligible principle, to which there is at once the possibility and the rigid determination to adhere. You, my Lord, while you deny, with forcible arguments, the utility of attempting this adherence, refer to past history in proof of the hopelessness of success. We may give, you say, "a visionary permanence to the sinking "fund by law, its useless forms may be con- "tinued, in vain semblance of that which "once was powerful and active, but its vital "spirit we cannot so preserve *."

Now, my Lord, I am not satisfied of our inability to preserve, at all times, an active

* Essay, p. 13.

and salutary principle of finance, founded upon the scheme of which the sinking fund is a part; I believe that the failures which you relate, as I submit, with much exaggeration, originated in the neglect, now sanctioned by your Lordship's great authority, of fundamental principles; I do not despair of an attempt to re-invigorate those principles.

In support of this essential difference of opinion, I must now follow your Lordship through your history of the sinking fund.

§ 4.

The system under which a perpetual charge is laid upon the country, whenever a deficient revenue is supplied by a loan, boasts of rather less antiquity than we commonly suppose. During the reigns of William and Anne, considerable sums were borrowed; but the annuities created were in general annuities for terms of years, or for lives; "the principal being to be sunk at the end

" of the term granted, which might be looked " upon as a sinking fund attending these " particular debts *." The exceptions were, the debts to the great companies, and the banker's debt, which, perhaps, as it arose from the fraud of ancestors, it was thought fair to throw in part upon posterity. In most other cases, the duties which constituted the fund, whereon each particular loan was charged, were chargeable with the principal as well as the interest of that particular debt. In 1716, the surpluses of all the particular funds, and of other more general funds, into which some of them had been united, were carried, together with some savings effected by the reduction of interest, to a new " SINKING FUND;" which fund was made applicable to the payment of debts existing on the 25th December, 1716, " and for none other use, intent, or purpose " whatsoever †," And it was so applied, with-

* Tindal, xix. 131. † Act 5 Geo. I. cap. 3. sect. 66.

out any systematic exception (there were, I believe, some silent encroachments,) during the reign of George I., and the first six years of George II., notwithstanding that within the same period, other debts equal to much more than the half of those redeemed, were paid off by this fund. In 1733, Sir Robert Walpole took half a million from the fund.

This measure your lordship ascribes to the sagacity of Walpole who, "outrunning the "wisdom of his contemporaries," discovered "the contradiction of increasing debt in the "very moment of professing to reduce it*." Your lordship is much too good an historian not to have observed the facility with which motives, good or bad, are ascribed to the heroes of history; I must humbly submit that you have furnished a notable instance of the practice. Your argument stood in no need of Walpole's authority; but there is

* Essay, p. 16, 17.

really not any ground for believing that he acted upon any higher motive than that which he professed, the desire to relieve the landed interest by voting the land tax at one shilling instead of two. He showed reasonable grounds for his suggestion, but did not hint at that which you now imagine for him. He denied peculiar sacredness of character to the measure of 1716; he argued that circumstances were so much altered, that public creditors were now more afraid of being paid off, than of losing their principal; that the landed gentlemen desired and deserved relief*. Of a loan, there was no question. Walpole, indeed, so far from adopting the objection urged against the sinking fund, as operating at a time when new debts were incurred, had, a few years before, laid before the king a representation from the House of Commons, in which that objection was over-ruled†.

* Parl. Hist. viii., 1200, 1, 5, 6.

† Representation of the Commons to the King, April 8, 1728. Parl. Hist. viii., p. 651.

Walpole was, I suspect, right in his lighter estimation of the measure of 1716; it was an arrangement of finance, not establishing any new principle, but simply consolidating what had been done, upon a similar principle, in variety and detail: this minister, however, had, himself, recently countenanced the notion of the inalienability of the fund, when he advised George II.'s answer to the Commons' Representation*.

Historical illustrations, if used at all, should be accurate and complete; otherwise, this inquiry concerning Walpole is of no great importance; but I gladly seize the opportunity which your reference to the debates of 1733 affords me of exhibiting, not in Walpole, but in his opponents, some indications of the principle for which it is my great object to

* Parl. Hist. viii. 666.—"The provision made for gradually "discharging the National Debt, is now become so certain and "considerable, that nothing but some unforeseen event can alter or "diminish it, which gives us the fairest prospect of seeing the "old debts discharged without any necessity of incurring new."

contend. I care not whether it was through the superior sagacity of Sir John Barnard *, and Sir William Wyndham †, or simply from that excitement of party which invokes every argument that can be devised; but they did urge the just and correct reason against the unrestrained accumulation of debt, when they argued in favour of the redemption, not for the benefit of the creditors, but rather for the sake of their own children, and, more particularly, of the future owners of their lands.

These arguments were unsuccessful in 1733; they will probably fail in 1828: but I thank you for the opportunity of citing high parliamentary authority, in support of one of my favourite positions.

I cannot concur with your lordship, in ascribing to the deliberate judgment of "some of our best and wisest statesmen," the absence, for the next forty years, of any systematic plan for the reduction of debt. It is indeed

* P. 1206. † P. 1209.

true that successive ministers " did not show " much solicitude to increase the taxation of " their country for the purpose of providing it " with a surplus; and that their reductions of " debt were principally, though not wholly, " effected by the falling in of annuities, and " by the diminutions successively made in the " rate of interest on the public securities, by " tenders of repayment *." In other words, they took the advantage afforded to them by the provident limitations of their forefathers; they readily availed themselves of any opportunity which the state of the public securities furnished, for relieving themselves from the burden of taxes; and they borrowed without scruple, and without any definite limitation, all that they wanted in war, sometimes too in peace; taking little heed of the future, making no provision for the redemption of debt, and, in the last instance, the American war, providing very insufficiently

* Essay, p. 17, 18.

even for its interest. Is this the example which you recommend for imitation?

It did not require the fanciful calculations of Dr. Price, to convince the just and prudent minister of 1786, that this system, or rather these practices, of finance, were not worthy of his country, or of his fame.

I will not exaggerate Mr. Pitt's merit in the restoration of the finances after the American war; his measures were highly judicious, and greatly assisted the elastic tendency to recover from distress, which this free country has always developed. My object is to explain the system of finance which Mr. Pitt adopted, so soon as these co-operating causes had produced a surplus of revenue. I am sorry to say, that even your lordship stands in need of this explanation; still more, those, who are familiar only with the complicated transactions of later years.

§ 5.

Mr. Pitt, in applying to the existing debt, his fund of redemption, which he fixed at one million, could find no rule either in law or in history, for its apportionment between one period or generation, and another. It was obvious, that unless a considerable burden were borne by the people then existing, no material reduction could be effected. But it was neither reasonable, nor necessary, that the burden should be continued, without any relief, until the whole debt should be extinguished. Your lordship considers the measure of limitation, as "a wise precaution, showing an "early and just apprehension of the evils "since felt from an opposite policy*." As indefinite accumulation has at no subsequent time been our policy, I know not to what period you refer.

I attempt not to define the exact motives

* Preface, p. ix.

of Mr. Pitt's decision, but he appears to have determined that the fund should operate without producing any direct relief, during the period which is usually assigned to a human generation. He did not fix the number of years, but he calculated the amount which the fund would reach in about twenty-eight years. Within this period, the savings effected by the annual application of the fund, were to be applied, together with the original fund, to the reduction of debt. Afterwards, the fund, as it would then stand, was to be applied to the reduction of debt; the annual savings were to be disposable for current services, for the repeal of taxes, or otherwise as parliament might direct. Expressing the same thing in other words, for the sake of a brevity which is quite intelligible, I might say that, during the first period, the fund was to accumulate at compound interest; during the second, at simple interest. "The application," as you truly observe,

" of compound interest to the institution of " a sinking fund, consists in adding to the " income of the sinking fund the annuities " which that fund successively redeems."— " A system of simple interest leaves them " applicable to the repeal of taxation, or to " the exigency of any other service*."

All this, my lord, is as simple as it is just; neither Mr. Pitt, nor any other sensible man, ever viewed the operation of compound interest in any other light. I have no doubt, but that much of the nonsense to which you allude, as to the magic of compound interest, has been talked in provincial towns; but its refutation really did not deserve a whole section of your Essay!

But you object to the term " interest," as applied to the annuity saved to the state by the purchase of its own debt†. Assuming that it was desirable to secure the appropriation, I cannot agree with your lordship in

* Essay, p. 51. † p. 61.

deeming this a perfectly useless fiction. Assuredly, an account might have been kept of the savings effected, and a direction might have been given to add an equal amount to the sum annually paid to the commissioners. It was believed, that by making the issue of these amounts quite a matter of course with the officers of the exchequer and the bank, without any intervention of parliament, or even of the treasury, the strict appropriation would be more effectually secured. I am satisfied that this effect was produced, or materially aided by this cause. For more than a quarter of a century the fund operated without encroachment. We are not now considering the advantage derived from the appropriation, but the efficacy of the devices for securing it. I cannot but believe, that the alienation of the sinking fund, and especially the appropriation of the annual savings to any other purpose, was made much more difficult to the minds of parlia-

ments and ministers, than it would have been under another system. Indeed, much that is said, as to the *delusion* practised under the system of the sinking fund, furnishes proof of this position. "The nation" did not see that it "was the true owner of these annuities;" and, therefore, left them in the hands of the commissioners. But I leave this, which is, in truth, a merely formal part of our inquiry. It may be possible to have, and strictly to appropriate, a sinking fund, without the machinery which has become so offensive.

I have stated, that in former wars, inadequate provision had been made for the charge occasioned by new loans. To ensure sufficiency in future, was an important provision of Mr. Pitt's system of finance. This it was impossible to effect prospectively; the provision must necessarily be made by the parliament of the time: it was only by requiring full and distinct accounts, first of the revenues applicable to the existing charge; and, se-

condly, of the specific revenue raised for the purpose of defraying each new charge as it might be created, that he could in any degree ensure the adequacy of the revenue, and the reality of the surplus. Any deficiency would thus instantly become apparent, and it was assuredly a part of the system that it should be immediately supplied. It was also Mr. Pitt's object, and his endeavour, to provide, if possible, by sums raised either within the year, or within a period of a few years, for extraordinary expenses, occasioned by armaments or other political measures; upon this principle he acted for the few years which intervened between the first establishment of the sinking fund, and the measure of 1792, to which I now request your lordship's attention.

This measure is founded upon the doctrine which I have maintained, as to indefinite mortgages of the resources of the state. It fixes a limit, beyond which no mortgage is

to extend. It authorizes the creation of an annuity for any period not exceeding forty-five years, without any fund of redemption; but requires that provision shall be made, for redeeming within that period, any annuity for a longer term, or any perpetual annuity, which may be created on account of any new debt. If no provision for this purpose be made by parliament, it directs the appropriation of a sinking fund, of one per cent., which is calculated to effect the redemption within the period limited. This appropriated fund is part of the additional charge attending a new loan, for which a separate and sufficient revenue is, according to Mr. Pitt's system, to be provided.

The period of forty-five years, was arbitrarily chosen; probably because it was the estimated period for the extinction of debt by a sinking fund, equal to one hundredth part of the capital. A longer or a shorter period would have been equally reasonable; but

it was essential to the principle to fix some limit, which should not be transgressed.

You will observe, that according to this system, there would be no new financial arrangement at the end of a war, unless the peace establishment should go beyond its antecedent rate:—taxes imposed for carrying on the war, would cease; taxes laid on in consequence of the loans, would remain, including within themselves the power of extinction within a period of moderate extent.

This then, my Lord, was the simple and intelligible system of Mr. Pitt; and I would almost venture again to ask your Lordship, whether if, instead of a sinking fund, a positive limitation could have been prescribed, for the term of annuities charged upon the revenues, the system would not have been, even in your view, prudent, just, and practicable.

And I would also ask you whether it would not have been, even with the sinking fund, omitting, if you please, the machinery, a system in all respects expedient in time of peace.

I would ask you, still further, whether, even if it were admitted, and known before-hand that, in war, the plan of reduction must be suspended, it would not be advisable to establish and maintain this whole system in time of peace: the system being, as I will again state it still more briefly, always to maintain a revenue sufficient for all permanent charges and ordinary expenses, with a moderate surplus applied to the payment of old debts; and not to anticipate future revenue for more than forty-five years.

§ 6.

I NOW advert to the alleged "inefficacy of "sinking funds operating in war." At the

first introduction of the plan of 1786, Mr. Pitt had not perceived any anomaly in the process of borrowing and paying debt at the same time. Perhaps, indeed, he had not contemplated the case. Mr. Fox saw the difficulty, and Mr. Pitt readily adopted his suggested remedy. This was the clause, so often mentioned of late years, for enabling the state, in time of war, to avail itself of the amount of the sinking fund, without departing from the plan. Mr. Fox's clause authorized the commissioners to place themselves in the situation of the loan contractors. Instead of old stock in exchange for their money, they were to receive a portion of the new stock, created as the consideration for the loan. Under this clause, as applied to the sinking fund of 1786, the effect would have been this; the loan of the year, instead of the old debt, would have been lessened by the amount of the sinking fund in that year; the total debt at the end of the year, and the

income of the sinking fund, would have remained on the same scale, as if the purchases of the sinking fund had proceeded, and the whole sum required had been raised by loan. A simple suspension of the purchases of the sinking fund, would have had the same effect upon the debt; but the annual income of the fund would not then have been increased, by a sum equal to the interest thereupon. The clause, therefore, was simply a part of the machinery, for securing to the fund its growing income, without a special provision by parliament. In either case, there would have been an increased debt, with a permanent charge, without any provision for the redemption of the excess.

But before a war occurred, so as to call this clause into possible operation, the act of 1792 had passed, establishing a new principle, namely the limitation of forty-five years. Under this act the sinking fund, when applied upon the principle of Mr. Fox's clause

to the service of the year, receives not only the interest of the stock newly created and transferred to it, but a new annual payment of one per cent. upon that stock, as well as upon the stock really created and sold to the contractors. The effect, therefore, is to leave the debt at the same amount at which it would have stood, if the whole loan had been borrowed of the contractors; that is, greater, by the amount of that loan, than it was at the commencement of the year; but the portion of this new debt nominally transferred to the commissioners, is attended, like all the other portions of it, with a sinking fund, calculated for its redemption in forty-five years.

If the sinking fund had been simply suspended, it would have lost, as before, its growing income; and there would have been an equal increase of debt, without any provision for redemption.

The sinking fund then, during war, is still,

whether Mr. Fox's clause be acted upon, or the purchases proceed, and the loan is increased by their amount, a mere piece of machinery, for preserving the principle; and in the latter case it certainly may be termed, without inaccuracy, a borrowed sinking fund.

But I beg your lordship to observe, that "the preservation of the principle," is not simply the record of a dormant regulation, not to be enforced until after the war. It is an essential part of the system that the revenue shall be kept to the full amount of the interest of the debt, whether in the hands of the commissioners or of the stockholders; and that an additional revenue shall be created, consisting of real surplus beyond *ordinary* expenditure, sufficient for the redemption of the increased debt, in whatever form the increase occurs: so that the due proportion of the burden of this debt shall be borne by those who incur it.

Now, all this, I admit, might possibly be

effected, without precisely those formalities which the sinking fund requires; whether it would be done with more clearness and simplicity in the public accounts, I have some doubt; but I am tenacious not of the form, but of the principle. If I can be assured "that forty-five years shall be the utmost "limit of time for which the revenues of the "country shall be mortgaged, and that the "provision made for preserving that limit "shall not be set aside for any temporary "purpose *," I care not in what mode this great principle is enforced.

But it is said that the machinery is expensive. There is always, your lordship observes, a profit to the contractor, and, consequently, a loss to the state, when the government goes into the market to purchase and to sell similar and equivalent securities. This observa-

* View of the State of the Nation, &c., by T. P. Courtenay, Esq., 1811, p. 30.

tion, I presume, you apply only to the practice of the late war, when the purchases of the commissioners went on, at the same time, with the loans, and not to a period in which Mr. Fox's clause is permitted to operate. A refutation of your opinion is therefore superfluous, with a view to the defence of the system of which that clause is a part. But it is not certain that the double process has occasioned a loss.

When Mr. Pitt, how much against his wishes and expectations, no man knows better than your lordship, was led into the war of 1793, and required to raise money by loan, it was his intention, carried so far as to be announced in his budget speech *, to make use of the sinking fund in virtue of the clause. But he was persuaded, and he and all other ministers acted upon the persuasion throughout the war, that the cessation of the pur-

* Parl. Hist. xxx., p. 562—3

chases would lower the market price of the stock which he offered for the loan, more than the diminution of the amount of loan would raise it; and this was, up to a very late period, the opinion of all the monied men whom Mr. Vansittart consulted, with the single, but certainly very important, exception of Mr. Ricardo. The question is incapable of demonstration. I am, myself, inclined, with Mr. Grenfell, to the opinion of Ricardo; but the opposite opinion is by no means absurd. There is nothing fanciful in the supposition, that if a horse dealer, having been in the habit of buying fifty horses annually, at a fair, and paying a good price for them, were suddenly to discontinue the purchase, and to bring one hundred horses to the same fair for sale, his absence as a purchaser would depreciate the price of horses generally at that fair, more than a reduction of the number, offered for sale, by one half, would

raise it. But I do not press this point, because, when arguing for the sinking fund prospectively, I may presume that the sale and purchase of stock by government will not again proceed simultaneously.

The discontinuance of the double process does not necessarily imply the discontinuance of the whole system; not only the diversion of all the revenues, composing the sinking fund, to the current service, but also the failure to make any provision for the redemption of new debt. By this failure, those who borrow and use the money, throw off from themselves the whole weight of the debt; instead of bearing, as under the plan of the sinking fund, a proportion of it, determined by a previous and permanent rule; which rule requires us to bear, in the first and every year of forty-five, one equal forty-fifth part of the taxation occasioned by extraordinary expenses.

Now, my Lord, the point upon which I am most anxious to explain myself to your lordship is, that this rule involves, *not* a mere question of machinery, but a principle of action; I might almost say, a question, not of finance, but of equity! The rule, in its detail, is arbitrary, and a matter of political arrangement; in its principle, it concerns the fair dealing of man with man.

To conclude upon this part of the subject, "the inefficacy of sinking funds operating in "war:"—I am still inclined to think that the sinking fund, with all its machinery, may usefully be left to operate in time of war, notwithstanding that new loans are raised; but I should deem myself quite successful in my argument, if I could establish with your lordship, and with those by whom the question must be decided, this one great point:—that when we supply the deficiency of our own contributions by anticipations of future revenue, we are to limit the duration of our

mortgage, and bear, during its continuance, our *equal* share of the burden. This may be done, notwithstanding that the machinery of the sinking fund be entirely stopped.

§ 7.

In considering your first chapter, I have necessarily made many of the remarks which occur on the second, wherein you treat of "The operation and results of our present "sinking fund." If, indeed, I have succeeded in my bold attempt to impute to your lordship a misapprehension of the character of the fund, I have already shown the irrelevancy, to our present argument, of the four propositions which you maintain in this part of your Essay.

You state, as preliminaries, that "the two "great objects of the fund are, the increase "of the national wealth, and the reduction "of the national incumbrances*; and that,

* Essay, p. 24.

" vain and valueless is all which it has ever " done, and all which it ever could do, for " the advantage of the public*;"—I answer thus. An immediate reduction of incumbrances, (with which, as you elsewhere† justly say, an increase of wealth is synonymous) is *not* the object of the fund. But notwithstanding several legislative deviations from the original plan, and, perhaps, some errors in practice, it has answered that which *was* its object—lessening, by sacrifices made, in other words, by taxes borne, at an earlier period, the incumbrances sustained by the country at a later time. This position requires no detail of calculation, nor is it affected by any of those which have been made, (with how much accuracy matters not here) to show that, in the whole course of its existence, the fund has even occasioned a financial loss. It is now enough to refer to the material assistance derived by the public

* Essay, p. 26. † p. 34.

finances in 1813, and subsequent years, from the fund, as modified by Mr. Vansittart.

Of this use of the sinking fund, you are aware, for you affirm in your first proposition, that "all the direct benefit of which "this establishment can, on the most favour- "able supposition, have been productive, "consists in its having, from time to time, "placed at the free disposal of the com- "munity, certain portions of annual tax- "ation previously appropriated to the inter- "ests of our public debt*." But secondly, "That all the means by which it has actually "produced this effect have been supplied to "it by surplus taxation, levied in excess of "the current expenditure of the state, and "therefore, imposed or continued solely for "this especial purpose."

In these two propositions I concur; they are, in truth, the very ground-work of my argument: the object whereof has been to

demonstrate the propriety of leaving this surplus taxation, for the purpose of setting free those portions of taxation previously appropriated. The difference between us arises from your lordship's disregard of this essential circumstance, that the operations described in these two respective propositions, are necessarily separated in point of time. Taxes, for instance, paid in 1800, set free revenue in 1813.

I do not affirm that the burden and the relief have been adjusted exactly according to the principles which I have stated; nor is that a necessary subject of inquiry here. It is enough that taxes imposed and paid at one period have produced relief from taxation at another.

§ 8.

I HAVE read more than once the latter part of your observations in support of your first position, without satisfying myself of the

object for which they are placed there. You state very correctly, that "our public debt," that is, all that we can be required to pay, "consists not in capital, but in annuities*;" that what is called capital "serves only to "express the price at which the state may, "at its own convenience, redeem its engage-"ments†." The only deduction from these acknowledged truths which I find in the chapter is, that no "undue advantage has "accrued to the public creditor, merely from "the needless complication of the form "which has been given to our loans‡;" namely, the form of stock, sometimes greatly exceeding in nominal capital, the money lent. I do not know what is meant by "undue advantage." In a bargain fairly made nothing can be "undue;" but if it is meant, that the amount of this nominal capital is a matter of indifference, either to the state or to the loan contractor, I have again the mis-

* Essay, p. 29. † p. 31. ‡ p. 32.

fortune to dissent. It is either by the purchase of this nominal capital, at the market price, or by an offer to pay off at par, that the state redeems a part of the annuities which it owes. So much of nominal capital at a lower rate of interest per cent. as will yield a given annuity, has a higher marketable value than a smaller capital, which, bearing a higher rate of interest, will yield a similar annuity. The former, therefore, is more popular, so much so, that a loan can seldom be procured in the latter, without a considerable sacrifice of interest. On the other hand, the state is exposed to the probability of having much more to pay for redeeming a similar annuity when funded in stock of the first mentioned description. The question in these cases is, how much heavier a charge for interest is it prudent to incur, for the sake of obtaining money in return for the smaller nominal capital? The amount of the nominal capital can only be a matter of indifference,

if the state never contemplates the reduction of the annuities which it pays, either by purchasing the capital, or reducing the interest. There is assuredly a difficulty in bringing into one account capital bearing different rates of interest, nor can any such account be framed for any useful purpose. But really this discussion is out of place.

§ 9.

The observations whereby your second proposition is supported, are pervaded by the misconception as to times and persons which I have already explained. "For every portion of previously appropriated wealth "which our sinking fund has placed at the "disposal of the community, it has" *not* "withdrawn from *the same* community a "corresponding portion of wealth previously "free and unappropriated*." It withdrew it from their predecessors. When you ask,

* Essay, p. 36.

" In what respect is it a more reasonable or " more real operation to reduce taxation by " taxing, than to pay debt by borrowing*?" the point of your epigram is at once blunted by the observation, that the father, in the case supposed, taxes himself now, in order that the debt which he incurs, may not subject the son to accumulated taxation hereafter.

§ 10.

You carry with you the same misapprehension, through your third proposition; " The " reductions of debt thus effected are mere " exchanges of equivalents†." And there are in this section, striking instances of the imputation of weak and exaggerated representations, to the advocates of the system which you condemn.

A purchase of stock in the market is, assuredly, as all fair purchases are, an exchange of equivalents. In the case before us, the

* Essay, p. 37. † ib.

cost of the purchase is the result of " super-" added taxation." Is this truth now known for the first time? The only question is, whether it be prudent, at a certain present expense, or expense continued through a certain period, to redeem an annuity charged upon us and our heirs for ever. This question was once resolved in the affirmative, and the act followed the decision. Some " millions" have been " removed from our " incumbrances." To produce this effect, corresponding incumbrances had been formerly sustained. All this I freely admit to your lordship, if admission can be applied to " an universal and obvious truism."

I also concur with your Lordship, in trying these transactions, " by a reference to similar " transactions in private life." The case is, exactly that of a landed proprietor, who redeems a mortgage, for the sake of enlarging the disposable income of his heir. He pays for the annuity redeemed, its equivalent value in

ready money, and to make this money disposable, he has taxed himself, by the "wealth "withdrawn from direct enjoyment.*" It is possible, if his affection for his son, or a consciousness of having incumbered the estate a little too much through his own extravagance, render him very highly desirous of liberating the inheritance, that he may even borrow the money, on a life annuity, or an insurance of his life. No doubt, if, instead of redeeming the annuity, he had saved the equivalent in a sum of money to be bequeathed to his heir, the effect would be the same. In neither case, is it pretended that the "purchase is" to him, "a matter of "gain." He suffers the privation; his son derives the equivalent benefit. Whether England was in 1786, or at any other period, or is now, under a like obligation with the landed proprietor, is indifferent in reference to the present object, which is simply to illustrate the reasonableness of redeeming a

* Essay, p. 42.

perpetual charge, by an equivalent sacrifice, even though the transaction produce no profit to the purchaser himself.

Your final remark, under this head, is an objection to the systematic and "inviolable maintenance of a sinking fund, prescribed to itself by a nation, by law, for its own supposed advantage *."

I submit, that if the appropriation be founded upon a principle, it ought to be systematic, and ought, therefore, to be subjected to such sanctions, necessarily liable to be superseded by a new law, as the legislature can provide. Perhaps, if the advantage expected came only to those who from time to time act upon the appropriation, legal sanctions might be more burdensome than useful: but I am certain that, in private life, convenience and comfort are very much consulted, by the systematic appropriation of a particular fund or series of receipts, to any distant object which, even without any posi-

* Essay, p. 47.

tive obligation, an individual is desirous to attain. I do not find one observation, in your section upon the operation of compound interest*, which our previous discussion has not anticipated. It certainly enunciates no propositions which I desire to controvert. I admit that Dr. Price was, if the terms be not contradictory, an arithmetical enthusiast; and that compound interest "consists in adding to the income of the sinking fund, the "annuities which that fund successively redeems." It is in that character alone that its application is suggested.

§ 11.

In your third chapter†, wherein you treat "of "the attempted permanence and repeated "interruption of the system," you state too broadly the necessity of "long and unvaried "accumulation." Much benefit may arise from a sinking fund, even though its authors

* Essay, p. 47. † p. 58

should be a little too sanguine, or too strict in their anticipations of permanent and unqualified operation. I cannot admit that the history of Mr. Pitt's sinking fund proves either the inefficacy of his measure, or the hopelessness of any attempt to re-invigorate a sinking fund.

If, indeed, the attempt be " to provide for " the true interests of posterity, much better " than posterity itself*," it is likely enough to be defeated; but, here again, I must remind your Lordship that, in maintaining a sinking fund, we do not simply recommend to our successors a course of conduct beneficial to them, or rather to their successors, but we commence that course ourselves; and the benefit is felt, by those who come after us, whether they follow in the same track or not. If they are less provident, or less just to their posterity, their disregard of our example will cast no censure, or work any justification, retrospectively, for us.

* Essay, p. 59.

But your Lordship knows that in using the terms "*we*" and "*posterity*," I can draw no accurate line of distinction between the two. The most lengthened operations of our sinking fund, would not exceed the period during which, not unfrequently, the same man has a voice in parliament, and it may have no inconsiderable operation within a period much shorter; so short, as to render its maintenance a matter of consideration for statesmen who look not beyond the events in which they are themselves to share.

§ 12.

I ADMIT, that "the expected benefits of a sink-"ing fund at compound interest depend," for their permanence and extent, "on its unva-"ried accumulation," but I deny that those benefits are annihilated by the suspension of that accumulation, or by its cessation before the period originally planned. Let me apply these remarks to your second and third posi-

tions on " the provisions adopted for giving " permanence to the sinking fund of 1786*;" and " the actual failure of these endeavours†."

I have nothing to object to your description of these provisions; I have already sufficiently noticed your criticisms upon their technicalities. Assuredly, these were adopted by Mr. Pitt, " in the hope," in my opinion not entirely " groundless," " of their contri- " buting to give permanence to the system‡." And it is somewhat remarkable that Mr. Fox, who had not that taste for financial details which belonged to the minister, appears fully to have joined in this hope: the only amendment which he proposed was, the introduction of a new fiction. When you describe it as the aim of these fictions, " to induce the " British parliament to act in after times, " in opposition to its own deliberate judg- " ment of what might best promote the public " happiness," and aver that " if they failed of

* Essay, p. 60. † p. 65. ‡ p. 62.

"this, they did nothing*:" you repeat your error as to the relative bearings of the sinking fund upon the present and the future; and you forget that the "public happiness," as well as the convenience of the government, must at any particular moment, almost necessarily be promoted by the diversion of the fund. Surely, knowing the temptation to be strong to depart, for a temporary purpose, from a system of permanent advantage, Mr. Pitt did wisely in throwing the object of temptation as much as possible into shade. Whether similar devices would have the same effect now, I have much doubt; but I believe that they did tend greatly to the end desired.

§ 13.

But truly, my Lord, there has not been the complete failure which you imagine; at least, that failure is not demonstrated by the pre-

* Essay, p. 64-5.

sent circumstances of the sinking fund. I wish, with your lordship, to dwell rather upon principles than upon measures; but I assure your lordship that, without something more particular than the brief history which you give, we cannot illustrate the principle upon which the question now at issue must be decided. The question is, whether we shall now, in time of peace, adopt any systematic plan for reducing our national debt, or preventing its future growth. There is not even, necessarily, now a question, whether our plan shall embrace any period of war which may occur. It is surely not enough for the decision of this question to say that, in a similar time of peace, more than forty years ago, a like plan was adopted, of which, now, scarcely a trace remains; without adverting at least, to this one little circumstance of detail, that within seven years from the institution of the fund, commenced a war of more than twenty years' duration. Even according to your

lordship, if I correctly understand you, every one of the "causes of this failure" is to be ascribed to "that long and perilous contest." How then do they demonstrate the impolicy of the institution during peace?

But your Essay does not trace, with exactness, the operation of these causes; in avoiding details, it somewhat confounds occurrences. It is impossible to make good use of the materials of our decision, without a methodical arrangement of facts, as well as of principles: I invite your lordship to accompany me while I attempt this arrangement.

The sinking fund of 1786, operated without disturbance, and without counteraction by war, until the year 1793. In that interval, political events had occasioned some extraordinary expenses; for these, provision was made by the prudent minister of that day, by occasional taxation *.

The productiveness of the revenue induced

* Rose's Examination, 1792, p. 43.

Mr. Pitt in 1792, when he instituted the new sinking fund, appropriated to each future loan, to make a special grant to the old fund, of one year's clear surplus *. And the future benefit of this surplus he proposed to divide, giving one half to the fund, and, with the other, repealing taxes. It is singular that Mr. Fox †, the leader of an opposition, possessing great interest in the land, and pretending to peculiar sympathy with the people, reproached Mr. Pitt with an unworthy thirst after popularity, because he did not give the whole of the surplus to the fund! In my opinion, Mr. Pitt's was the wiser decision, especially as the appropriation of one moiety to the redemption of debt was not an absolute, but an annual grant; so that while, up to a certain point, settled upon a fixed principle, the income of the fund was inalienable; beyond that point, it was available in the event

* £ 400,000. Parl. Hist. xxix., p. 824.

† Page 844.

of an accidental deficiency. In the instance before us, the amount was small, and the war soon destroyed the surplus; but the procedure is well worthy of imitation.

The amount of the sinking fund, at the commencement of the war, was more than one million, six hundred thousand pounds; consisting, in part, of the grant of parliament, of the interest, in part, saved by the redemption of debt; but composed, in all its parts, of a real surplus of revenue: about six hundred thousand pounds of that surplus were the result of the operation of the fund itself; or, if you please, for it is in this place exactly the same, of the nation's annual savings.

Here was an available sum, of capital, to lessen the amount of the annual loan; or, of income, whereout the charge of a loan might be provided. The amount was small, but with reference either to the amount of the debt, or to the scale of the expenditure, by no means inconsiderable. As the period du-

ring which the taxes, composing this fund, had been levied, was one of unusual prosperity, there is no pretence for imputing to them a severity of pressure. I confidently submit that through this, the short, but only period of continued peace, the sinking fund had completely succeeded.

Nay, my Lord, I will even venture to ask *you*, whether, if you could now go back to 1793, or rather to that period of 1792, up to which you retained the hope of peace; imagining yourself and the nation to have been as copiously watered as in these latter years, "from the pure stream of science*," would you stand up among your peers, the hereditary possessors of lands and honours, and propose the abrogation of the sinking fund?

Your first chapter would have given me the hope of an affirmative answer; but in that now before me, after enumerating the causes of failure during war, not at this present moment

* Essay, p. 50.

a question between us, you have wrought yourself (forgive the expression) into a train of reasoning, not only against borrowed sinking funds, and against all systematic plans of redemption, even by a real surplus, but almost against payment of debt in any mode whatever.

Your arguments, if I see them clearly through the metaphors which occasionally dazzle me, appear to be these:—first, you say that an accumulating fund exacts a present sacrifice, not only of the taxes which compose the fixed allowance, but of those which defray the purchased, but still continued interests; and that "for this great, im-"mediate, and increasing evil," the only return offered is, "the hope of a speculative "good, deferred to some indefinite but distant "period; and even in its ultimate effect, pro-"ductive of a very questionable and equivo-"cal advantage *." Your deduction is, that

* Essay, p. 70.

" the rulers of any community in the most " prosperous condition of its finances, ought " to apply themselves to the direct interests " of those whose happiness is their primary " and especial charge;" in other words, repeal taxes to the utmost, without any regard to the future.

I submit, that in these passages, there are glaring errors, evincing an inaccurate observation of the system which you condemn. How can it be said that the accumulation of the sinking fund is an *increasing* evil? It is true that the amount of taxes, applicable to the fund, and, therefore, disposable, if the fund be abolished, increases in every successive year; but it is not true that the amount of taxes of which the sinking fund prevents the repeal, increases continually, or increases at all. If the sinking fund of 1786 had never been created, taxes to the amount of twelve hundred thousand pounds annually might, at some time between 1786

and 1793, have been repealed. And if the fund, having been formed, had been abolished or suspended at any time within the same period, there might have been repealed such an additional amount as was equal to the redeemed interest; ultimately, more than four hundred thousand pounds. And this continually growing power of repealing taxes your lordship represents as the increasing evil of the sinking fund, forgetting that, without that fund, the whole of this amount of four hundred thousand pounds of taxes, must have been borne by the country for all time to come! An increasing power of effecting a good, you style an increasing evil, because it is not immediately enjoyed.

Again, the good, you say, is to be enjoyed at some "indefinite, but distant period." The period is not indefinite, and it is not necessarily remote. I will not here re-argue the propriety of assigning a limit to our debt. I will only remind you that the definition of

the period, (subject only to variations of price) is the very essence of the system; and that if at any time within that limit the state is minded to anticipate the period, it may secure a share of the advantage which was ultimately to be enjoyed, proportioned to the duration of its forbearance.

But you add that this contemplated advantage, available, as you say, at a distant period, available, as I say, at any period of the operation of a sinking fund, is, "*as we have seen*, "very questionable and equivocal*."

My Lord, I have looked back, and I cannot find the passage in which you treat the repeal of taxes, and of that advantage we now speak, as other than a great and certain good; I look forward, and I come at once upon a passage in which the repeal of taxes is stated as so much *the* great and advantageous object, that it ought not, on any consideration, not even for the sake of extending its operation,

* Page 70.

to be postponed by any state which has the power of effecting it.

You will probably admit that you have been led too far by the vehemence of argument, when you question even the eventual advantage to flow from the sinking fund. But, you say, in reference to benefits to be realized hereafter, that "an earlier, although "more gradual, repeal of taxes would spread "its benefits in a thousand fertilising chan- "nels, over the wide field of social industry; "and never could its absence be compen- "sated by any forced direction given, after a "dreary vacancy, to the produce of the same "sources, pent up till it bursts these artificial "barriers *."

I am not sure that I have caught the meaning contained in this metaphorical passage. The question is, between repealing, at once, an amount of taxes equal to an existing surplus of annual revenue, and letting

* Page 71.

that surplus operate annually in the diminution of charge; and then, at some future period, whether previously fixed or not, is of no importance here, repealing taxes equal to the surplus and saving. The first alternative which your metaphor contemplates, is an earlier, but it is not a gradual repeal. That epithet is calculated to mislead us. Your suggestion really is to disperse, at once, among the community, the whole amount which is not wanted at the exchequer; in the hope, as I presume, that the increase of wealth thus occasioned, will either augment, at a future period, the produce of existing taxes, or furnish resources for additional taxation. It is only under this construction that your reasoning can have any practical bearing upon the question.

I am well aware of the distrust, with which an argument in palliation of the effect of taxes is received, especially when it proceeds from an official man; but I cannot do justice

to the question between us, without avowing the opinion, that the effect of taxes, upon the wealth of a nation, is usually much over-rated. Taxation varies the distribution of wealth; it circulates it in different channels; but I know not the principle on which it is maintained that, in the channels into which it is thus circulated, it conduces less to the general prosperity.

But whatever be the effect of taxes upon the national wealth, they assuredly occasion much individual discomfort, and almost every man rejoices at their reduction. And upon two points there is scarcely a difference of opinion. First, that the effect of a repeal of taxes, that is, of taxes upon consumption, which comprise the greater part of English revenue, is not always felt by the community at large, in due proportion to the diminution of public income. And this observation is more strikingly just, when applied to the reduction only, not the abrogation of a parti-

cular tax. Secondly, the re-imposition of an old, or the imposition of a new tax, is felt much more severely, both by consumers and traders, than the continuance of one which exists.

It follows, that where there is any probability,—and when is there not?—that political or financial occurrences will require, at no very distant period, an augmentation of revenue, a government which possesses a surplus will consult the convenience and happiness of its subjects most, by so disposing it as to avert the probability of renewed taxation. I therefore confidently submit, that, without any regard to the interests of the next generation, still less of distant posterity, there is wisdom, and kind consideration for the people, in applying a surplus, or a part of it, to a sinking fund. I say, or a part of it, because it is no inconsiderable circumstance that, within a period of moderate duration, a moiety applied to the sinking

fund will effect as much direct relief, as the whole dispersed at once.

If then, my Lord, the expected effect of your fertilising channels is, not the actual augmentation of revenue, but the enlargement of resources to be drawn hereafter from the people by fresh taxation, I am satisfied that, even if your speculation be correct, you estimate wrongly its operation upon the public happiness.

I am well aware that the reduction of duty often increases the consumption of the particular article relieved, and even of others; to the great increase of individual comfort, and sometimes without loss of revenue; this truth ought always to be in the mind of a minister of finance. If the diminution of duty be compensated by the increased consumption, it is a mere financial arrangement, not a question of surplus. It may certainly sometimes be prudent to postpone the appropriation of surplus, in order to give time for

the trial of the experiment, in any particular direction. If you give away your actual surplus, and your experiment then fails, you are without resource, except in fresh taxation; if you apply it to a sinking fund, you have in your hands the means of repairing the loss. According to my principle, I should certainly be unwilling to make this use of a sinking fund, especially in time of peace; it is possible to preserve at once the principle and the immediate benefit; but all that I would now urge upon your Lordship is, that if we look to the possibility of war occurring in our own times, nay, if we look even beyond one single year, we shall disregard your Lordship's counsel to cast away the surplus which reviving prosperity may afford to us.

To return now to the history of actual occurrences; I contend that Mr. Pitt's sinking fund, so long as peace continued, produced an unequivocal and substantial good.

The extent of the advantage was limited, by the return of war; an event so completely unexpected, that, in the very year preceding, our military force had been reduced. Detailed figures are not necessary to show how much the benefit would have been enlarged if peace had continued; I am satisfied that if it had lasted only to the end of the century, not a man in England would now doubt of the wisdom of Mr. Pitt's system, or listen to Lord Grenville's exhortation to renounce it.

§ 14.

But I now, at your Lordship's invitation, consider the actual operation of the system during the far different circumstances produced by war. Under these, you say, "it "compelled us to heap loans upon loans, and "taxes upon taxes, in a series of unlimited "accumulation;"—"it increased the defi- "ciency of the revenue, by the full amount "to which its operations were carried."—

"Its whole amount, all its fixed allowances, "all the redeemed annuities, and all the "pretended accumulations of interest by "which they are increased, served only to "swell the long schedule of taxation."—"In "addition to the war loans, we had sinking "fund loans, rapidly increasing, and ulti- "mately of very large amount."—"To the "new charge of interest created by the for- "mer, a further and similar charge was "superadded by the latter."—"To neither "of these new services were the annuities to "be redeemed by this increasing fund at all "available; both were to be met always by "fresh taxes*."

No wonder indeed, if the ills of which you give this long catalogue, convinced parliament that the system had failed, and led to its ultimate suspension!

But your representation of facts, my lord, I am compelled to observe, is, in some parts,

* Essay, pp. 72, 3, 4.

greatly exaggerated, in others, wholly incorrect.

In order to estimate the effect of the sinking fund, we must consider what would have been the operations of finance if your lordship had, in 1786, outrun the wisdom of your contemporaries, over-ruled the prejudices of Mr. Pitt, and persuaded him to follow the advice which you now give. Let us see, what would have been the variations from the actual state of the national account on one side and the other. I will go no further at present than the year 1802, because in that year the first war terminated, and the first alteration was made in Mr. Pitt's sinking fund; and in the course of the subsequent war, the fund underwent a second, and still more material alteration.

If, then, there had been no sinking fund, the surplus of twelve hundred thousand pounds would have been dispersed, by the repeal of taxes; by that amount the revenue

applicable to the permanent charges of the state, in technical language, the income of the consolidated fund*, would have been diminished;—on the other hand, the charge upon that fund would have been diminished by the amount of the fixed allowance to the sinking fund of 1786; so far, then, the account is not affected by the system of 1786; —the deficiency was not increased, nor any necessity created for an additional loan: taxes certainly were continued; no fresh taxes imposed.

But under the act of 1792, a fixed allowance of one per cent. upon the capital of every new loan was added to the sinking fund, whereby the charge upon the consolidated fund was annually increased; to defray this charge, which progressively increased from about sixty thousand pounds to two millions and a half annually, new and suffi-

* To be strictly accurate, I must observe that £200,000 of this fixed allowance formed a part of the annual supply; but as it was invariably voted, the distinction is merely technical.

cient taxes were imposed. The deficiency, and the amount of the loans, were not directly affected by this part of the operation, any more than by the former.

In addition to these fixed allowances, the sinking fund received the several amounts of the annuity redeemed; that is, of interest upon the stock purchased by the sinking fund. For these amounts no new charge was laid upon the consolidated fund; they were the result of the operations of the sinking fund itself, but for that institution, they would have remained the property of individuals. Through this part, therefore, of the operation again, the national account was not affected; the deficiency was not augmented, no additional loan was required, nor was any tax either imposed or continued.

The result of the whole is, that if we had had no sinking fund in the war of 1793, we should have had at our disposal, the surplus of twelve hundred thousand pounds, provided

that we chose to revive, and again impose, the repealed taxes, to that amount; and, supposing also that we had determined to impose in every year taxes to the amount of the one per cent., we should have had those several amounts disposable, either to defray the charge of loans, or for current services. If they had been applied to current services, the loan of each year might have been diminished; that of 1793, by sixty thousand pounds; that of 1801, by two millions and a half; those of the other years by various intermediate sums.

To this extent you are correct, in ascribing to the sinking fund the origination of loans; it did not divert or appropriate to itself a single amount of capital raised by loan, or of income raised by previous taxation; but it did occasion the maintenance, and the creation, of revenues, which might have been revived, or created, with a view of diminishing the loans. You forget,

that for every addition thus occasioned to the loans, a former amount of debt was redeemed, so that although the sum annually borrowed was increased, no addition was made to the debt.

I know, my Lord, how widely this statement differs from some which have been over and over again made in parliament, and supported by a formidable array of figures; as well as from your lordship's more pointed and forcible statement. It is, however, exactly conformably in substance, though it differs in expression, with that of Dr. Hamilton, whom your lordship, like some others, mistakingly supposes to have placed in a new light, the operation of the sinking fund.

Again then, my Lord, I take my stand with Mr. Pitt, and I confidently submit that he had a right, in 1802, to look back with pride at the working of his system.

He had adhered to it in all its parts.

He had maintained at more than its origi-

nal amount, the revenue which existed before the war; he had made an adequate provision for all the new charges which the war had occasioned. He had made provision for the redemption within the limited period of forty-five years from the origin of each loan, of the whole debt which he had created; he had borne the share in this redemption which that limitation prescribed; and he had lessened by the millions, which his sinking fund had purchased before the war, as well as by war taxes, unknown to his immediate predecessors, the amount to which the debt would otherwise have increased.

Had peace been then maintained, upon the scale of expense of the former peace, independently of any permanent charge arising out of the war, there would have been a clear surplus of revenue, over and above the sinking fund. That fund amounted to five millions eight hundred thousand pounds. If it had been deemed advisable, at that moment, to

put an end to the fund, in order that that large annual revenue might be disposable, that very measure would have been a proof, not of the failure but of the beneficial operation of the plan. This considerable income was, no doubt, the result of taxation, and taxation might, by other modes of proceeding, have raised a similar revenue; but by none, I will venture to say, of such easy and inoffensive operation upon the people. Indeed, the hitherto easy pressure of the system was pretty clearly demonstrated, by the imposition of extensive and productive taxes in the succeeding years.

I must here observe, that it is possible that an additional revenue might have been necessary, even though the war had not been renewed; this necessity is referrible to a circumstance, for which Mr. Pitt's system had not, and could not have, specially provided; the tendency of the ordinary expenditure, during a war, to exceed that which preceded

the war. It cannot now be ascertained whether the increased revenue would have met this new charge; according to the estimates of the period, it would have been more than adequate. It is obvious that a sinking fund, or any system which requires the imposition of taxes during war, beyond the amount required as interest on the loans, affords a ready method of meeting this increased expenditure; if, contrary to the fact of 1802, other means are wanting.

But I will again pause to ask your lordship, whether, if you could now go back to the peace of Amiens, either with or without a more favourable opinion of its duration than that which you entertained, and which the event justified, you would, on reviewing its operation both in peace and in war, counsel, at that period of peace, the abrogation of the sinking fund, or its diversion from the object of its institution?

§ 15.

I MUST now call your attention to a modification, which the sinking fund did undergo in 1802, which has occasioned much of the prevalent misconception of its nature.

We have already seen that Mr. Pitt's sinking fund of 1786 was to operate, for one period at compound interest, afterwards at simple interest, until the whole of the old debt should be redeemed. The several smaller sinking funds created under the act of 1792, were to operate at compound interest, each by itself, until its particular loan should be discharged.

In 1802, the old sinking fund had approached, within six or seven years, the period at which it would operate at simple interest; from that time the finances would have derived an annual progressive relief of about two hundred thousand pounds, for about thirty years. The relief occasioned by the separate sinking funds was computed

to commence in about twenty years; from which period it would operate very irregularly, but very extensively, through a period of rather more than thirty years.

These calculations are subject to much variation; but the truth is, that a mistake of even ten years or more, is of no importance. That which I wish to impress upon your lordship is, how much you are mistaken in speaking of Mr. Pitt's fund as "never to be "made available to any present uses of the "state,—no, not in its utmost necessities, "but continually to be augmented for the "benefit of some remote posterity*."

Mr. Addington, in 1802, certainly with the full concurrence of Mr. Pitt, repealed all the provisions whereby any relief was to be derived from any part of the sinking fund, until the whole existing debt should be discharged, a transaction estimated to be completed in about forty-three years. By thus appropriating to the fund prospectively, large

* Essay, p. 75.

amounts of revenue which would otherwise have been available to the state, he accelerated the period in which the total debt would be extinguished, and assuredly did not infringe the principle of the sinking fund, in reference to the limitation of the national mortgage; but, by greatly deferring the period at which the fund would begin to operate, visibly and intelligibly, to the relief of the people, so as to authorise the repeal of taxes during peace, or the abstinence from fresh taxation, if it should occur during war, he did as much, practically, to bring the system into discredit, as if he had invaded or diverted it. May I be permitted to add, that I held and expressed this opinion at the time* ? I never formed one which experience more amply justified.

* "Observations on the Present State of the Finances, 1803." I take this opportunity of mentioning, in reference to this and other parts of my letter, that I have purposely omitted several details, which would be necessary to a complete history of finance, but have no important bearing upon the present question.

§ 16.

The war recommenced in 1803: the old sinking fund proceeded, and as the act of 1802, had not affected future loans, new sinking funds of one per cent. were created. The amount of the loans, however, was much diminished by the very judicious and energetic resolution of Mr. Addington, (acting, I believe I may say, under the advice, and certainly with the assistance, of Mr. Vansittart*,) a resolution adopted and extended by Mr. Pitt, and by your Lordship, to raise a large proportion of the supplies within each year. This system proceeded without mo-

* I perform a very agreeable duty, in bearing testimony to the judgment and vigour of the measures whereby Mr. Vansittart, now Lord Bexley, augmented, on this, and on other occasions, the revenue of the state; and I am more particularly desirous of adverting to the present measure of raising a large sum within the year by war taxes, because I did express an apprehension, that he proceeded too far. I am now satisfied that, although (as usually happens) the revenue was not at once augmented to the extent of the increased taxation, the measure of 1803 was judicious and successful.

dification for the first four years of the war. I shall not dwell upon the proceedings of 1807, because I am determined to avoid personal argument; it is enough to say that, in that year, a portion of the war taxes was mortgaged for about fourteen years, a measure strictly within the principle of 1792; and that in the following years, other portions were made permanent by Mr. Perceval, and charged with the interest, and corresponding sinking fund, of new loans. It is quite unfair, in my opinion, to object to these measures, as encroachments on the sinking fund*, or departures from its system. They were, in fact, modifications, occasioned by the increasing pressure of the war, of measures which were an improvement upon that system.

§ 17.

But in 1813, a second alteration was made in

* See Mr. Ricardo's article in the Encyclopædia Britannica, cited in the Essay, p. 66.

the sinking fund, which, though very intelligible in its first principle, being very full of details, has tended, if I may so express myself, greatly to mystify the subject; and I am satisfied that your lordship has not carefully considered it.

Its avowed and leading object was to correct the error of 1802, by restoring to the sinking fund, its principle of gradual relief. There were, in my opinion, several objectionable points in the mode in which this object was effected: two I will particularly mention. First, the remedy was applied to a part which was not affected by the disease; in my opinion, if the correction had been applied only to the sinking fund of 1802, the measure would have strengthened instead of impairing, as I am convinced it has, the principle of the sinking fund. Secondly, the principle of self-operation was destroyed, by leaving parliament to fix, from time to time, the amount of the

relief which (always under the limitation which the new, or revived, principle established) the country should derive from the fund. According to the old principle, the revenue set free should no longer have been issued by the commissioners, and would have occasioned an immediate diminution of charge upon the consolidated fund, and consequent increase of the surplus.

The necessity of the interference of parliament in every instance, gave to each the character of an encroachment upon the sinking fund, which has led others as well as your Lordship, into error. Disapproving for these and other reasons, of the measure of 1813, I cannot think you justified in deeming it a violent breach of the barriers * of the institution, and an evidence of the failure of the whole plan. Your remark that "too much was attempted †," is just when applied to the measure of 1802; but it is not just as to the

* Essay, p. 65. † P. 74.

original system; which the plan of 1813 professed to revive, by restoring to the establishment that which, though certainly overlooked by your lordship, was truly, "of its very "essence," a principle of gradual relief.

Now, my Lord, I must again invite you to look back, and review the operation of the sinking fund, up to the period which we are now considering, the first at which it was so relaxed, as to afford present relief.

The sinking fund now amounted to thirteen millions; of which rather more than six millions and a half consisted of fixed allowances; the remainder of the redeemed interest. Certainly, although the sinking fund had never existed, an amount of taxes gradually rising from twelve hundred thousand pounds, to thirteen millions, might have been applied to the current service. And if those sums had been raised in war taxes, they would have constituted a fund, whereon the interest of loans might have been charged, just as they

were charged after the year 1813 upon the sinking fund. The great benefit which the parliament and people of 1813 derived from the sinking fund, consisted in the obligation which its existence had imposed upon preceding parliaments to create the surplus revenue, instead of borrowing the amount upon a perpetuity*. Actual, arithmetical gain, there was assuredly none; financial and political convenience, in my opinion, much.

I cannot allow that, in 1813, the institution could be justly styled inefficient: or one which had consulted only the interests of remote posterity.

Between 1813 and 1822, Mr. Vansittart's measure placed at the disposal of parliament, an annual income of nearly ten millions †.

* "The sinking fund has had a real effect in calling forth exertions which, although they might have been made as well and as effectually, would not have been made, unless to follow out the line which that system required."—"If the sinking fund had not been in view, it is likely that taxes would have been imposed for the interest only."—*Hamilton*, p. 153.

† Commons' Journals, LXXVII. 792.

During the latter years of the war, when the great and successful efforts were made for accomplishing that for which the country had fought so long and so bravely, there were raised upon this annual fund, the greater portion of the immense sums, which those efforts required. For the present purpose, it is no matter whether this was effected by a restoration, or by a subversion, of Mr. Pitt's principle.

Further loans were raised in the same way, during the following years of peace; and thus the income of the sinking fund, within nine years, stood in the place of ten millions of new taxes.

If, then, the sinking fund be considered as having expired under Mr. Vansittart's operations, it will be allowed to have made one of those vigorous efforts, which sometimes immediately precede death. For a testimony of its living merits, let me refer you to one who witnessed, with no ordinary powers of observation, its existence and its decease. "An "efficient sinking fund, in the opinion of

" many gentlemen who sat near him, could
" not exist at the same period that we were
" increasing our debt. In that position he
" did not coincide. He thought, for instance,
" that when Mr. Pitt first established a sink-
" ing fund, and although, during a consider-
" able portion of his subsequent life, the
" country was engaged in foreign wars, by
" the enormous expense of which the debt
" was increased in a far greater propor-
" tion than the sinking fund paid it off; yet
" that, in effect, we then always had a sink-
" ing fund. Of every loan that was borrowed
" to meet those vast expenses, Mr. Pitt pro-
" vided for the interest, and reserved a fund
" of one per cent. for the extinction. Un-
" doubtedly, an incredible weight was added
" to the debt by the protracted war that en-
" sued; but what would have been the situa-
" tion of the country, had she sooner effected
" a peace? All those loans which had been
" borrowed in war time, would have been

"provided for, and there would have been "left an efficient sinking fund. Had this "system been adhered to during the whole "progress of the war, he would have been "the last man to raise his voice against the "sinking fund*." These are the words of Ricardo; and I might rest upon them alone an argument for restoring the sinking fund.

§ 18.

After war had been terminated, and its expenses defrayed, it certainly did behove parliament to replace the finances upon the safe and plain ground on which the war had found them; and I admit that this process might have been sooner and more judiciously conducted. Of the steps taken towards this conclusion a slight sketch is sufficient.

Nothing permanent was attempted, until the year 1819. The object was, after fully discharging all expenses of the war, and re-

* Parl. Deb., New Series, VIII. 316.

ducing the floating debt to a convenient size, to secure a revenue sufficient, according to its average produce, to cover all permanent and ordinary expenses, including a provision for the redemption of the funded debt. A strict adherence to the law of the sinking fund, even as it was modified and relaxed in 1813, would have required a great temporary increase of taxes; great, because the nominal amount of the sinking fund was even then fifteen millions and a half, and the estimated surplus of revenue not more than two; temporary, because the operation of the law of 1813, would have afforded considerable and periodical relief. This taxation would not have been required, if the taxes which existed at the end of the war, had been continued; for there had already been a repeal of taxes to the amount of nearly nineteen millions*; composed, no doubt, principally of taxes specially destined for the war expenditure.

* Mr. Robinson's Budget speech. 1826. Appendix (A)

It was determined to have a real surplus of five millions *, with which view three millions of new taxes were imposed. No alteration was made in the law of the sinking fund; its nominal amount continued far to exceed the balance of free revenue, and there was now, as I conceive, a manifest departure from the principles of Mr. Pitt, and from those which I have humbly submitted as essential to a sinking fund in time of peace; from this period, and until the year 1823, the operose transactions of the sinking fund were justly exposed to criticism and ridicule. The machinery was now inefficient, even for securing an appropriation, or preserving a prin-

* "Resolved, That to provide for the exigencies of the "public service, to make such progressive reduction of the Na- "tional Debt as may adequately support public credit, and to "afford to the country a prospect of future relief from a part of "its present burdens, it is absolutely necessary that there should "be a clear surplus of the income of the country, beyond the "expenditure, of not less than five millions; and that with a "view to the attainment of this important object, it is expedient "now to increase the income of the country, by the imposition "of taxes, to the amount of three millions per annum."—*Commons' Journals.* LXXIV. 509.

ciple. Nevertheless it was not until the year 1823 *, that parliament reduced the nominal sinking fund, to the level of the actual or intended surplus. In the interval, Mr. Fox's clause was brought into operation, so that

* "Your committee cannot quit this part of the subject referred to them, without calling the attention of the House to the advantages which would be derived, not only in respect of a simplification of accounts, but also in respect to considerations of still more importance, from a review of the present system upon which the application of the sinking fund is conducted.

"It might not be expedient, during the continuance of the war, and until the experience of several years of peace had placed the revenue and expenditure of the country, upon a footing not likely materially to be varied, to attempt a revisal of the administration of the system, adopted for the reduction of the National Debt; but it seems now advisable, that the sum appropriated for that purpose, should be limited to the amount really intended to be applied to the discharge of debt, and which can be afforded from an actual excess of revenue above the expenditure of the country.

"The opinion of the House upon this subject may be considered as expressed in their resolution of the 8th June, 1819; and your committee submit, that, at an early period in the ensuing session, measures should be proposed for reducing the amount of the nominal sinking fund, upon the principles of the said resolution, and for discontinuing the practice of applying any part of it to the public service, in the form now become customary, of an annual loan."—*Report from the Select Committee on Public Accounts*, July 31, 1822, p. 10.

the more considerable portion of the fund was lent to the public for current expenses: the greater part of the interest and sinking fund being charged upon the fund itself, under the act of 1813.

But even the surplus of five millions has not been constantly realized, since the determination of 1819. This deficiency is owing to the great reduction of taxes; amounting, nearly, to eleven millions and a half, while the decrease of charge by the reduction of the interest on the five and four per cent. stocks, is under two millions. Although, therefore, the five millions have been regularly paid to the commissioners, they have not been the result of a permanent surplus, but have been obtained, in part, through casual receipts; and, since 1823, by what is whimsically called "*the dead weight* arrangement," to which, as being intimately connected with the principle of the sinking fund, and being very little understood, I must request your Lordship's attention.

If the sinking fund had continued on its original plan, or on the plan of 1813, the arrangement would, in my opinion, have been both justifiable and expedient. We all admit that, for the extraordinary expenses of a war, we may reasonably borrow; your lordship says, on a perpetuity, Mr. Pitt said, on an annuity of forty-five years. Now, the charges which are the object of this arrangement, arise strictly and truly out of the war, although, from their nature, being pensions and allowances enduring for the lives of individuals, they are not paid at once, but constitute, so long as they endure, an annual charge (or dead weight) quite unconnected with the current expenses of the state. If they could have been discharged at once, in single payments, which might, perhaps, have amounted to twenty or thirty millions, I apprehend that there would not have been in practice, and certainly not in principle, any objection to raising that sum by loan

charged upon the permanent revenue, with the required sinking fund, for discharging it in forty-five years.

As this could not easily be done, the revenues of forty-five coming years are charged with such an annuity, as will spread equally over that whole period, the authorised limit of a national mortgage, the whole expense of these war payments; which would otherwise press very unequally and severely on the earlier years. By the sale of that annuity, those unequal annual sums are to be raised, while the pressure upon the public is equal in every year.

This equalization is not less reasonable in itself, than it is consistent with the principle for which I have humbly contended; but it is quite inconsistent with the resolution of 1819, discarding, or at least suspending, the principle of forty-five years, and affirming the necessity of "a clear surplus of the "income of the country beyond the ex-

"penditure, of not less than five millions*."

If our sinking fund now stood upon a *principle*, we might justify the "dead weight;" but while it rests upon *a specific surplus*, it becomes delusive, to the extent in which it consists of any thing but surplus.

Moreover, in our haste to repeal taxes, we have adopted two principles, both, as I submit, erroneous. We have included in the account of income and expenditure whereon our balance is struck, every sort of receipt and disbursement, however uncertain or occasional; and we have considered as permanent surplus, which we might freely give away by reducing the taxes, every actual or expected exceeding of revenue, without making any allowance for erroneous estimates, or for fluctuations of produce.

I am far from disputing, indeed I have elsewhere maintained, the propriety of re-

* Resolutions of the House of Commons, of 8th June, 1819.

ducing taxes, as an experiment of the effect of reduction upon the produce of the remainder; but as we are now upon the causes of the failure of the sinking fund, I cannot omit these, to which the present defalcation is correctly to be traced.

§ 19.

I HAVE submitted to your Lordship this history of the sinking fund, in the hope of convincing you that you have misconceived both the degree and the causes of the imputed failure, and that you draw an unauthorised conclusion from the failure which is admitted.

The institution was formed, forty-two years ago. This period consisted, of six years of peace; twenty-four years of war; then twelve years of peace. Its operation in the first period was necessarily upon a small scale; but not even your lordship will impute to it a failure.

The question now being, whether to re-establish the institution during peace, I might fairly disregard, in the determination of that question, the whole following period of war; but I have endeavoured to show that its operation, even during the war, was not without advantage; and that the objection to it is applicable, only, to a mistaken choice between two modes of using it, equally parts of the system. This mistake, if it be one, might be avoided by a recourse to Mr. Fox's clause.

Your charge of failure, upon the present period of peace, it is impossible to repel: but it is a failure occasioned by external violence, not inherent disease.

The violent measures were, the systematic reduction of the fund to five millions; and, the destruction of the surplus, whereout that provision was to come.

The first of these, may or may not have been judicious. It is not altogether improbable, that if the gradual operation of the

plan of 1813, in affording relief, had been sufficiently understood, and impressed upon parliament, it might have been found expedient, at the expense of a continued pressure, to persevere in it; borrowing money for every expense in any degree connected with the war; and maintaining our taxation, until released by the operation of the sinking fund, at the scale of the ordinary peace expenditure, enlarged as it has been by the events of passed years.

But surely, my Lord, it is not just to impute failure to the sinking fund, because, after a war of unexampled effort and profusion, succeeding a very short period of peace, it was not found possible to adhere strictly to a system planned in contemplation of an alternation of peace and war more conformable to experience. The sinking fund of 1819, it is admitted, was not calculated to redeem the debt in forty-five years from that period; still less from the respective periods of its

origin. But the amount bore to the existing debt, a greater proportion than did the sinking fund of 1786; and it was to accumulate without check, until it should reach the point from which the redemption within the prescribed period would be effected.

With all my partiality for the sinking fund, I cannot regard a relaxation in this degree, whether it were one produced by necessity, or by a view of expediency, not quite enough regardful of the future, as a decisive indication of weakness or impracticability in the system. When you consider that it was accompanied by the imposition of three millions of taxes, it ought rather to be regarded as a proof of the determination of parliament, at that recent period, to persevere in the system of Mr. Pitt.

There has, then, been no complete failure, until now, when, through the too liberal repeal of taxes, the surplus has disappeared. It may be true that the diminution of the

fund has been the consequence of attempting too much, more indeed than Mr. Pitt contemplated. The "ultimate suspension," as you style the present state of the fund, is the consequence of over-sanguine anticipations of financial prosperity. Nor can these results be deemed a "decisive experiment" which ought to "lead to the total abandonment of "the system."

One word more, before I quit this long section of the Essay. I believe that I have already disposed of all the passages, wherein you allude to "increasing loans," and "extraordinary taxation;" except one remarkable passage with which you conclude, by lamenting that means had not been found for carrying on the war with more vigour and effect, by sparing to us those additional loans, or additional taxes, by an earlier discontinuance of the system. Your lordship herein correctly ascribes to the system its power of giving, at any moment, such

effectual support as, I have shown, the late fund did afford us, in a period of the greatest exertion. Let it even be granted that the aid will be most efficacious, if sought at the first moment of war, why do you counsel us against collecting, in time of peace, materials so important to the vigorous prosecution of the contest.

§ 20.

In your "conclusion," you dispose of four various heads of advantage, as those which are ascribed to a sinking fund by its different upholders.

1. Some, you say, recommend the system as "a resource in unforeseen emergencies." On this you originally observed, that "a "disposable surplus has its own advantages "and disadvantages*, but, in both, it essen- "tially differs from a sinking fund. The one

* The passage is altered in the second edition, and the disadvantage is explained. It consists in the surplus, "beginning in "needless taxation, and, probably, leading to needless expendi- "ture." Page 80.

"is appropriated, the other free." The one, therefore, you infer, cannot answer the purpose of the other.

In my view, the advantage here ascribed to the sinking fund is incidental only; it certainly was not, and, upon my principle, it ought not to be, an original object of the institution; yet it furnishes of itself a sufficient reason for maintaining it in peace. The "appropriation" of a fund having this origin, would be "the unforeseen emergency;" but a sinking fund, the most strictly appropriated to redemption of debt, in any other form than a specific pledge to the stockholder, is always within the power of parliament; and its liability to be used on an emergency, may fairly be claimed as one of its recommendations.

2. To raise and uphold the price of stocks, may have been an advantage ascribed to the institution by a fundholder. To a statesman it is none, except under any particular cir-

cumstances, in which a high price of the funds assists a financial operation; this may be, (for we will put loans out of the question) a reduction of the interest of the debt. The effect is not desired, for the benefit of any one set of proprietors, (which would be highly unjust) but for the benefit of all who pay taxes. Considering this as a merely incidental and occasional advantage of a sinking fund, I shall not argue against your opinion of its inefficacy. I believe that the purchases of the commissioners have a great effect upon the price, which is not materially counteracted by any consequent diversion of capital to other investment.

3. Your third supposed advantage is thus described—"The compulsory accumulation "of national wealth and its diversion from "unprofitable expenditure into productive "capital." As stated by Ricardo, from whom you cite it, this beneficial effect resolves itself into relief from taxation. Through the

sinking fund, he says*, we repeal taxes; taxes are generally paid out of revenue, which would otherwise be expended, and which thus come to be employed in increasing the annual produce of our land and labour.

This is not my view of the effect of the repeal of taxes. I subscribe to your Lordship's doctrine, that our object is "not the "multiplication of wealth, but the multipli- "cation of that social happiness which is "derived from wealth, and which consists "essentially in its use." Most assuredly; and there is an addition to the happiness and comfort of every man who finds that he has the "free use" of a part of his income hitherto due to the government, or that, with the same income, he may enlarge his consumption, hitherto straitened by what was, *in effect*, a sumptuary law. In relief from direct or indirect taxation, he experiences one or other of these substantial benefits; for

* Supplement to the Encyclopedia Britannica. "Funding System." Page 421.

the effect which this plan for enlarging, not "narrowing his enjoyments," produces upon the national wealth, he cares nothing.

I, too, my Lord, in arguing for a sinking fund, disclaim all speculative and circuitous advantages; I discard all notions of "forced "accumulation and compulsory saving*;" nor, indeed, is any thing like them to be found in the authority which you quote. I concur in your view of "the proper aim of legislation;" but I would not that the parliament of the day should diminish, by burdensome anticipations, the power of all future legislatures to pursue the course which you recommend.

4. I do not perceive the absurdity which your Lordship imputes to are commendation of the sinking fund, as giving confidence at home and abroad. I know not how accurately an enemy will estimate our power, when there is a question of war between us; but it is obvious that we assert our rights with more confidence, when we know that

* Essay, p. 82.

we possess, not "unreal" wealth, but the facility of maintaining, without additional taxes, fifty thousand additional soldiers, or of realising many millions of money. Undoubtedly, this is the effect, not of a sinking fund peculiarly, but of a surplus revenue; I submit that experience limited, but decisive, has taught us that a sinking fund is the easiest and surest mode of preserving this surplus, and, in that sense, it gives us confidence in our foreign and domestic policy.

§ 21.

I HAVE examined, with a boldness for which I again apologise sincerely, the reasonings whereupon you counsel the abandonment of the sinking fund. I have now to solicit your attention to the details of the advice of an opposite tendency, which, upon the grounds which I have stated, I would humbly offer to the country.

Those grounds are, first, the injustice and

improvidence of an indefinite charge upon the revenues; and, secondly, the expediency of husbanding our resources, for a time of war *.

Your Lordship will observe, that neither of these reasons leads, of necessity, to the establishment of a sinking fund, to operate during war. The latter almost necessarily excludes such operation; the former is quite consistent with a determination to pursue, so long as we have peace, the system, then to be suspended.

My advice is, that we revive the sinking fund, consisting of clear yearly surplus; that we retain, even if we cannot at once strictly act upon it, the limitation of forty-five years; and that that limitation should be maintained in war as well as in peace.

* Dr. Hamilton's third general principle is this:—"The "amount of the revenue, raised in time of peace, ought to be "greater than the expense of a peace establishment, and the "overplus applied to the discharge of debts contracted in former "wars, or reserved as a resource for the expenses of future "wars." Page 7.

A clear yearly surplus is the balance of the average produce of the revenue, over and above the average of the ordinary expenditure. Our permanent income ought to be estimated, upon an average, comprising years of various production; and our estimate of expenditure ought to allow for contingencies. In some years, there will be a balance of income, in others, a slight deficiency; but, if we intend to have a real fund of redemption, we must provide a surplus beyond the average balance of income and expenditure.

However desirable it may be to restore the limitation of forty-five years, I do not think that parliament can prudently, or consistently with recent proceedings, call upon the people for a larger surplus than that which was deliberately fixed by the House of Commons in 1819; and which is now, by law, the amount of the sinking fund. I know not to what extent any expected reductions of expenditure will assist in effecting this surplus; still less

can I estimate the improvement, of which there are visible symptoms, in the existing revenue. I fear that neither of these causes will afford the surplus, without a restoration of a small portion of the thirty millions of taxes, which have been repealed in the present period of peace; and I am aware that taxes may possibly be required to the extent of the whole five millions *.

For reasons already given, I here presume that no further portion of the dead weight annuity is sold; indeed, as we do not at this moment act upon the principle, by which alone that arrangement is justified, it would be better to reduce our actual sinking fund, than to supply it by means of the annuity.

I do not insist upon the immediate imposition of five millions of taxes; we may fairly take two years in the operation, during which we may watch the progress of the revenue,

* In the year 1827, there was no real surplus; the deficiency, which I estimate at about nine hundred thousand pounds, we may fairly expect to supply by improved revenue.

and ascertain the amount required, and the readiest sources for supplying it. That there will be any difficulty in obtaining the surplus, experience forbids me to doubt; it might be procured by addition to the present taxes upon consumption and expenditure, or by the levy of an income tax, to the amount of double the sum required, accompanying a great reduction of those taxes upon consumption and expenditure which are much less conformable to the true principles of taxation, and interfere much more with production and the employment of labour.

The next question regards the limitation under which this sinking fund is to be applied.

By the act of 1823 *, it is to accumulate at compound interest, until it shall amount to one hundredth part of the debt †; that is,

* 4 Geo. IV. c. 19.

† The funded debt, and the unfunded, if unprovided for. I think that no part of the unfunded debt, which, though not specifically provided for, is a charge upon the revenues of the next, or soon following years, ought to be included among the objects of the sinking fund.

until it shall constitute a fund, capable of redeeming the debt within forty-five years from that time, it would appear, the fixed allowance of five millions will continue strictly appropriated; but the redeemed interest may be applied, in the spirit of the act of 1813, "as "parliament may from time to time direct."

This enactment appears to recognise the limitation of forty-five years, but with an important variation from the original principle; it should seem that the period might be continually renewed, and the principle satisfied, if there exist, from time to time, a fund sufficient for the redemption of the debt within forty-five years, if applied at compound interest throughout the period. Now I do not say that this is altogether contrary to the principle of 1792; and it certainly is not contrary to the practice of individuals, which I have invoked in support of that principle.

If we were always at peace, and were con-

tinually to renew our incumbrance at the same amount as that which would be redeemed, this mode of applying the principle would keep down the debt, at its existing amount; but it would be a most improvident scheme for us, who are always liable to war; and would be quite inconsistent with Mr. Pitt's system, which requires the equalization of the permanent income, with the ordinary expenditure, and the maintenance of a clear surplus for redeeming debt.

To your Lordship, however, this supposed system of loans in peace ought to be acceptable; for the arguments founded on the absurdity of our concern for the interests of posterity, would clearly justify us in borrowing, at all times, as much money as we can possibly raise, for any purpose whatever, upon perpetual, still more certainly upon terminable, annuities.

We ought, as I suggest, so to manage our one per cent sinking fund, as to place our-

selves, as nearly as possible, in the situation of having borrowed, in war, upon annuities of forty-five years; and of not borrowing at all in time of peace.

On these grounds, as well as because I object to the parliamentary discretion borrowed from the act of 1813, I disapprove of the provisions of the existing sinking fund act; and conceive that if the proportion of one in the hundred be preserved, it ought to be used for its original purpose of redeeming, in forty-five years, the debt to which each fund is appropriated; this can only be effected by an unchecked operation at compound interest.

Do I then propose that our sinking fund of five millions should so accumulate? I answer no. And my reason is this: we are now, perhaps, in respect of the existing debt, in the situation in which Mr. Pitt stood in 1786; and in creating, or restoring, a fund of redemption, we may fairly fix a period at which it shall begin to work actual relief

from taxation. The unchecked accumulation of the fund, would postpone this relief sixty or seventy years, and then effect it to an amount much too large for one operation.

These several considerations induce me to wish that the fund had been made to operate at compound interest, till it should arrive at eight, or I should prefer, ten millions, and then to operate, as was intended of Mr. Pitt's four millions, at simple interest; effecting in every year, subsequent to the attainment of that point, an additional relief from taxes.

Yet as the amount to which the present law requires the accumulation will probably be upwards of seven millions, it may be as well to leave the law as it stands; hoping that the future parliament, which shall be called upon to act upon the discretion vested in it, or perhaps a little sooner, will, of itself, adopt a definite rule of relief. If I were to suggest a rule, I think that it would be this; —that from that period, one half of the sum annually saved by the operation of the fund,

should, as now, be again carried to the fund, and the other half set free.

The present law makes no new or special provision for war. Mr. Fox's clause remains in force, and the rule of 1813, which requires in some cases, a sinking fund, greater than one per cent.* on new loans is retained.

Though I do not see the necessity of this larger fund I am decidedly of opinion that, here again, it is advisable to leave the act as it stands. It will probably be revised at the commencement of a new war; I will only express my hope, that if, as is extremely probable, the operation of the fund should be altogether suspended in time of war, we shall still not depart from the rule which requires the imposition of taxes to the amount of one hundredth part of every new loan. This rule may be obeyed, and the principle of 1792 substantially maintained, without any double process, or any of the machinery of the sink-

* 53 Geo. III. c. 35, s. 5.

ing fund. I hope and trust that we shall never conduct another war without raising a large portion of the supplies within the year. A part of the additional taxes levied for this purpose should be added to the permanent revenue, the surplus of which is, in the ordinary course, applied to current services. The produce would, during war, reduce the amount of the annual loans, and thus operate upon the amount of the debt in the same proportion as if it were carried to a sinking fund*. In peace it would be applied to the sinking fund.

I have said that the one per cent sinking funds, being a substitute for terminable annuities, ought as much as possible to be assimilated to them. A very ingenious but eccentric connexion of your lordship's, the late Lord Stanhope, made a suggestion in 1786†, for securing the unvaried appropri-

* See a similar suggestion in Dr Hamilton's book, p. 154.

† Parl. Hist. xxvi. 17.

ation of the fund, which would have effectually answered this purpose, and may be adopted with much advantage now. He proposed to make the sinking fund a part of the engagement with the stockholder, from which there could be no departure without a breach of faith. By this he intended, not only to secure the inalienability of the fund, but to purchase the stockholder's* consent to easier terms of redemption. There are two modes in which a variation of this suggestion might be applied, during the present period; we might purchase by the application of a part of the fund, the consent of the three per cent. stockholders to the conversion of their stock into a smaller capital at a higher rate of interest; or we might

* As this is the first time of mentioning the stockholder, I take the opportunity of expressing my satisfaction at your lordship's concurrence (evident from your omission of the topic) in the rejection of all *claim* on the part of the stockholder to any sinking fund, except in the one case of the 3½ per cents., in which there is a specific legal pledge. The general pledge is rather to the *land*.

facilitate that which is the most desirable of all the results, the conversion of the permanent, into terminable annuities, the difference being paid out of the sinking fund. I will not now pursue this topic into all the varieties of which it admits, although it is intimately connected with the present discussion, inasmuch as it refers to an effectual mode of "giving permanence to the sinking "fund."

It must be admitted that this mode of appropriating a sinking fund, excludes the possibility of making any other use of it, and is, therefore, inconsistent with the second object of the institution, the collection of the means of carrying on future wars; those at least which may occur, as wars almost certainly will, within our period of limitation. Indirectly, however, our efforts in war would be greatly assisted by the provident and effectual reduction of our permanent debt; and, although, if we have a fund at our dis-

posal, it may be wise to use it in war, I am satisfied that we ought not to be deterred, by the hope of accumulating that fund, from taking the most effectual measures for relieving the country from the perpetual charge, which we ourselves and our predecessors have imposed upon it.

I have only one word more as to the management of our finances. If we make effectual provision for our expenses, the revenue will still fluctuate; there may be occasional deficiencies, occasional surplusses: the former would cause a temporary augmentation, the latter a diminution of the floating debt; and I hope that it will not be until a surplus has endured for at least three years, that we shall again disperse resources which it is difficult and painful to recal. If there should be any doubt of the permanence of the surplus, and the reduction of the floating debt should be thought unadvisable, Mr. Pitt's practice in 1792 should be followed; a part,

at least, of the occasional surplus should be granted for that time, not specially appropriated, to the sinking fund; this would be no grant to "remote posterity," as by accelerating the attainment of the maximum, we should bring nearer to us the period, not very distant now, according to my suggestion, of direct and copious relief.

My Lord, I have now completed my endeavour to lay before the public the facts and principles upon which they are to decide the great question at issue.

I deceive myself if I have not urged reasons, of no inconsiderable weight, in favour of the principle of limiting our charge upon posterity; and I am still more confident that I have shown good grounds for rejecting your Lordship's counsel, which would lead us altogether to disregard our debts, and not even, in this time of peace, to think of reducing them; for this advice, I submit, you cannot cite the opinion of statesman, philosopher, or

economist, or the example of any sober man. Foreign countries will fail you; Russia and France have sinking funds; and the wary and provident government of the North American States, have recently* re-inforced their sinking fund, to operate unchecked during peace, but to be disposable by congress during war.

Your advice my Lord, forgive me for saying it, is really one of those excesses into which orators are sometimes misled by the intoxication of argument; and it is well worthy to be classed with those boasts of heaven-born genius, and magical power, which you impute to us, the advocates of the policy which you reject.

Our error you ascribe to "the love of system." My Lord, although I utterly discard all arguments (if arguments they can be), founded upon a change of your lordship's

* See in Cohen's Compendium of Finance, p. 177, an abstract of the American Act of 1817.

opinion upon the application of a principle; I own that I see with unmeasured surprise, Lord Grenville the contemner of a systematic policy. I have always been taught to expect from you, indeed I have heard, if I remember well, not unfrequently from your lips, an indignant and contemptuous reprobation of occasional devices for carrying on the public affairs: those who were the more peculiar admirers of your Lordship, would boast of your superiority in this respect to your friend and fellow-counsellor; and would sometimes reproach him with too ready a submission to political circumstances, while your Lordship assumed and pursued a statesman-like and undeviating rule of action.

I never could accede to the imputation upon Mr. Pitt, who, according to my humble observation, combined with more of judicious discrimination than any statesman of the time, an adherence to right and chosen principles, with a prompt estimate of passing occur-

rences: and never, in the moment of the obedience to occasional considerations, which his eventful times required, lost sight of his more approved policy.

Yet, in your Lordship, there always appeared a still more tenacious and formal adherence to system, and a reference, in all your opinions, (how impressively enforced upon your auditors, my youthful recollections well attest,) to the permanent welfare of your country. No man could trace a more ancient interest in the soil of England; no man's counsels carried that interest further into the time to come.

And, now, it is by Lord Grenville that we are taught to ridicule systems, and to disregard future generations; to satisfy our own wants from year to year as we can, leaving to annual consideration the settlement of our most important concerns, and not caring how we may affect or embarrass our posterity.

I earnestly hope, that the Lords and Com

mons of this day will deem otherwise of their duties as statesmen; and that if the still remaining consequences of the late struggle, have left us too weak to sustain the vigorous counsels of Pitt, we may still adhere to the resolution suggested by the practical wisdom of Castlereagh, and enforced by the eloquence of Canning.

I have the honour to be, with great respect,

My Lord,

Your Lordship's

Most obedient and humble servant,

THOMAS PEREGRINE COURTENAY.

London, April 30th, 1828.